

Proposal for Hospitality Tax Small Capital Projects Funding

Submitted by:
Town of Fuquay-Varina



FUQUAY MINERAL SPRING PARK AMPHITHEATER PROJECT

**Fuquay Mineral Spring Park Amphitheater Project
Hospitality Tax Small Capital Funding Proposal
Town of Fuquay-Varina**



February 7, 2018

Letter of Transmittal

Mr. Tom Wester
Wake County Finance – Procurement Services
Wake County Justice Center – 2nd Floor, Ste. 2900
301 South McDowell Street
Raleigh, NC 27601

RE: Request for Proposals for Hospitality Tax Small Capital Projects Funding 2018

Dear Mr. Wester:

Attached please find our \$85,000 funding request proposal to Wake County's Hospitality Tax Small Capital Project Fund in support of the development of our outdoor amphitheater project that will serve as a gateway into our downtown community and Wake County.

The Fuquay Mineral Spring Park Amphitheater Project 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 residents and out of town tourists wishing to join in a unique, outdoor entertainment experience. This outdoor amphitheater project will be built in the Fuquay Mineral Spring Park, a historic park listed on the National Register of Historic Places that encompasses a richness and family atmosphere in our downtown that makes it an ideal location for this proposed outdoor venue.

The Fuquay Mineral Spring Park Amphitheater promises to be an entertainment and educational destination in downtown Fuquay-Varina that provide opportunities, entices visitation and revitalizes activity while serving as a gateway into the heart of our community.

Kindest Regards,

A handwritten signature in blue ink, appearing to read "Adam Mitchell", is written over a light blue horizontal line.

Adam Mitchell
Town Manager

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**Fuquay Mineral Spring Park Amphitheater Project
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Executive Summary

The Town of Fuquay-Varina approved a Comprehensive Systemwide Master Plan for the Parks, Recreation & Cultural Resources Department in 2014 and in recent years performed an internal evaluation of existing facilities and services to focus and prioritize the future needs of the new park amenities that meet constituent recreation demands.

The Town is proposing the development of the Fuquay Mineral Spring Park Amphitheater. The construction of a 300-seat outdoor amphitheater in Fuquay-Varina's own National Historic Designated Park is a component of a larger revitalization initiative for the downtown community that will provide a destination venue for cultural arts, educational performances and concert entertainment. This facility will be constructed within the attractive confines of an existing Town park that showcases the historic significance of the Town's founding history dating back to the early 20th century. The amphitheater project will provide great benefit and performance opportunities that enhance the cultural art amenities throughout downtown Fuquay-Varina and southern Wake County.

To realize its vision, the Town respectfully requests \$85,000 from Wake County's Hospitality Tax Small Capital Projects Fund. The total project cost for the Fuquay Mineral Spring Park Amphitheater is \$350,000. In addition to the \$85,000 funding request from Wake County, the Town has committed the balance of the project's total project budget (\$265,000). Project funds will be utilized for project design, construction and administration upon project completion. The funding committed by the Town is above the 65% threshold of the overall project.



The Town is undertaking this project to create a unique, vibrant and year-round destination for outdoor recreation, live entertainment that enriches a nationally historic park and beautiful outdoor venue. Amenities include a covered stage, electricity and restrooms. Fuquay-Varina is experiencing robust, transformational growth, particularly in the downtown. Creating an amphitheater in the Fuquay Mineral Spring Park will add significantly to the cultural environment of downtown Fuquay. The amphitheater will provide an alternate performing space significantly different from the theatre available at the Fuquay-Varina Arts Center; the two performing venues,

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operating in the same downtown, will provide abundant opportunities for collaboration rather than competition. The intent of developing both the amphitheater and the Arts Center downtown is to create a foundation of cultural activity which generates an economic ripple effect, significantly and positively impacting the economic vitality of the downtown in which both venues operate. The amphitheater project will boost a vibrant downtown Fuquay-Varina arts scene and directly support local downtown non-profit organizations and the private sector small business community.

Similar to Wake County's 2017 Park Facility Master Plan updated report, the Town of Fuquay-Varina is constantly assessing its natural resources and ability to better serve its residents and attract visitors to enjoy the cultural resources and amenities of Wake County. The proposed amphitheater project will advance this goal in the following ways:

- **Enhance access to park locations** by providing a unique outdoor, open space cultural amenity that is not currently available in southern Wake County.
- **Enhance visitor experience** by providing a much-needed branded destination venue for outdoor performances, entertainment and outdoor recreational opportunities for residents and visitors from the surrounding region.
- **Capture additional sales and hospitality tax revenue** with increased number of food and beverage sales taking place before, during and after entertainment events are held.
- **Increase public-private partnerships** by allowing an expansion in programming by local private art and entertainment businesses working together with the Town's Parks, Recreation & Cultural Resources, Arts Center and Downtown Development Departments.
- **Improving connectivity** between downtown businesses and public park amenities.
- **Encourage healthy lifestyle activities** that bring families outside to walk to/from surrounding downtown business and park amenities.

The primary contact for this project:

Mark Matthews, Assistant Town Manager | mmatthews@fuquay-varina.org | 919.552.1401

Jim Seymour, Economic Development Director | jseymour@fuquay-varina.org | 919.753.1031

Scope of Project

The Fuquay Mineral Spring Park Amphitheater will provide a unique cultural venue and experience designed to attract residents and visitors from the surrounding market region, including southern Wake, northern Harnett, eastern Chatham, Lee and Johnston Counties. This new venue will serve as a *gateway* to the downtown community. This amphitheater project will be a powerful draw for patrons to visit downtown Fuquay-Varina, thereby capturing and cultivating the creative, social, and economic activity of Fuquay-Varina and southern Wake County. Furthermore, investment in this venue will complement the Town's investment in the Fuquay-

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Varina Arts Center, downtown public art installations, and the growth in craft beer tourism in Fuquay-Varina to solidify the Downtown Fuquay-Varina's emerging identity as a brewery and cultural tourism destination. With the opening of The Mason Jar Lager Company in 2017 and Aviator Brewing Company's 109,000 square foot manufacturing, distribution, and commercial entertainment facility currently under construction, as well as the opening of the Fuquay-Varina Arts Center in May/June 2018, the time is right to add the proposed amphitheater.

This 300-plus seat venue will include a variety of usable, flexible spaces including an outdoor covered pavilion, restrooms, playground, and a water feature highlighted by the surrounding natural spring of the park. Lawn chairs, blankets, and picnic activities will be a welcome and encouraged use of the park venue. Fuquay-Varina's growing demand for local cultural art themed activities will benefit from the addition of an outdoor amphitheater and green space that can accommodate larger, outdoor audiences for performing art groups, cultural festivals, significant seasonal special events and year-round holiday activities.

The Town envisions the amphitheater venue to be a beautiful outdoor venue incorporating all the natural elements that make the Fuquay Mineral Spring Park special. The Town recognizes several benefits associated with the ability to immediately undertake the project. The proposed project area is located on Town-owned property and therefore no property acquisition is required which helps to reduce the project schedule and overall project cost. In addition to adding a unique amenity and improving the aesthetics of the Fuquay Mineral Spring Park, the Town's objective is to use this amphitheater project as an economic driver to enhance the Town's downtown economic development efforts. The Town believes this project will become a regional draw to the heart of southern Wake County for patrons to enjoy year-round events surrounded by the perfect backdrop of a nationally significant historic park.

Understanding that the arts are a positive economic driver throughout downtown communities, studies have shown how a cultural amenity like an amphitheater can bring in new tax revenue and increased sales to the surrounding local small business community. Downtown economic renewal becomes more viable as more foot traffic is generated which, in turn, drives downtown prosperity.

Demand for Facility

As the largest community in southern Wake County, Fuquay-Varina's robust growth continues to demand recreational services and cultural amenities. In 2016, Fuquay-Varina's Town Board of Commissioners requested an update to the 2014 Parks, Recreation & Cultural Resources Facility Master Plan so that the Department could realign facility needs and expectations to better match recreation and Town growth trends. The Town worked with its Parks & Recreation 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 outdoor amphitheater was one of the top priorities identified.*

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Data gathered from the Town's Economic Development Department validates that the county has a strong, positive growth trend. Within a 15-mile radius of the Fuquay Mineral Spring Park there are nearly 186,000 households with a population over 513,000. Among these 186,000 households, it is estimated that approximately \$134,020,000 is spent on entertainment & recreation events¹. This growth results in an increase in demand for public amenities and park facilities throughout southern Wake County. The Town has consistently experienced significant visitation throughout Southern and Western Wake County, as well as neighboring Counties at the Follow Me To Fuquay-Varina (FM2FV) Concert Series, further indicating the demand for this type of facility in the region. Fuquay-Varina is one of the state's fastest growing communities and there is anecdotal evidence and quantifiable numbers to support this statement. Population and housing demands continue to rise and local consumer spending is above the national average with a substantial portion of that spent on entertainment.

Additionally, the development of both the amphitheater and the Arts Center in downtown locations creates the opportunity to brand and identify an arts and cultural district, attracting more installations of public art throughout the downtown districts. Already home to two sculptures, multiple pieces of wall art, and a planned mural on the side of the Arts Center, the creation of a cultural district will galvanize downtown Fuquay-Varina as the home of southern Wake County's lively and vibrant arts scene.

¹ 2018 ESRI Spending Potential Index

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Community Need Compared to Existing Facilities

An assessment of the region's existing outdoor performance facilities and spaces identifies gaps in the inventory for performing spaces, considers the overall quality of spaces for arts and entertainment programming and provides insight into a competitive market for cultural activities. The amphitheater project is uniquely positioned to provide exceptional outdoor event opportunities to a diverse population that include residents and visitors from the surrounding Triangle Region. There are no other outdoor presentation venues of similar size in southern Wake County or surrounding Harnett, Johnston, Chatham, and Lee Counties, and the cohesive design of the proposed venue is attractive for outdoor entertainment and public gathering space. As an anchor for the downtown community, this amphitheater park will provide attractive, well equipped, highly flexible opportunities for participants, visitors, and entertainment promoters. Nearly 1,000,000 people live within a 30-minute drive of this amphitheater project location.

Demand for Wake County Funding

The Town is committed to the enhancement of Town-operated park facilities that bring about positive impact for the resident and visitor experience. As one of North Carolina's fastest growing communities, the Town must be fiscally prudent in balancing the investment in special projects, planned addition of operating costs, maintaining the Town's fiscal strength as exemplified by its AAA bond rating, while meeting the demands of growing population and providing high quality municipal services. To meet the mounting demand of providing outdoor high-end quality public amenities for the community, the Town's intention is to leverage its local funding with Wake County funds to position the Town to complete this project.

Overnight Visits

The large seating capacity and unique setting of the amphitheater will enable the Town to become an immediately sought-after entertainment venue in southern Wake County. It is important to consider the direct as well as indirect economic impact of this venue, as its success are likely to drive increased visitation to the Town's Arts Center, breweries, and restaurants as Fuquay-Varina is increasingly seen as a destination for cultural events. To capitalize on this emerging identity, the Town must also pursue a strategy that further separates itself from the competition and creates a distinctive outdoor venue. The Fuquay Mineral Spring Park Amphitheater will be an ideal setting to host concerts with the flexibility to host plays, weddings, food tastings, movie nights and other seasonal themed events that may require overnight trips resulting in additional overnight stays and increasing lodging, food and beverage taxes.

Local Collaboration Efforts & Lasting Impact

The Town's Parks, Recreation & Cultural Resources Department must strategically collaborate with other town departments and the private sector business community especially during event planning. Additionally, the Town's Arts Center works closely with the local non-profit Downtown

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Fuquay-Varina Revitalization Association for the En Plein Air Paint Off and Auction, and with the Fuquay-Varina Arts Council to populate the Artists' Village for the annual Celebrate Fuquay-Varina event in downtown Fuquay-Varina. Additionally, the Arts Center is currently working with United Arts of Raleigh and Wake County to install an additional mural downtown, and Fuquay-Varina High School, Rhino Leap Productions and UNC School of the Arts to develop a program for the opening of the Arts Center. Other programming collaborations underway include planning and developing therapeutic art classes and workshops with the Joel Fund to be offered to veterans suffering from PTSD and other combat-related issues and working with local elementary school teachers and principals to identify theatre productions that support curriculum objectives.

The amphitheater project will have the opportunity to collaborate with public and private schools in southern Wake County to advance arts education and celebrate the accomplishments of students. Exhibits, programming with curricular tie-ins, and professional development opportunities for teachers will provide opportunity to impact and support schools.

Tracking Progress & Future Reporting

Success at the Fuquay Mineral Spring Park Amphitheater will be measured through admissions/event participation, number of events offered, and direct revenue generated, both in resident and non-resident numbers. On a community level, the Town will monitor and report the growth of downtown businesses and attendance at established events. Moreover, development of the amphitheater will result in downtown area businesses increasing sales of food and beverage due to higher visitation, and similar consumer-oriented uses, resulting in higher tax revenue—in the form of prepared food and beverage taxes, overall sales tax, and property tax base revenue. Additional room nights and associated occupancy taxes are expected to be generated from the existing hotels in Town and in neighboring Holly Springs, as well as from the bed and breakfast located diagonally across the street from the park. Detailed projections are included in the attached exhibit.

How Project is Consistent with Wake County Room Occupancy & Prepared Food Beverage Operating Principals

Growth & Sustainability

The amphitheater project addresses not only current needs, but anticipates growth in cultural, outdoor activities in a manageable, sustainable venue. There is no similar outdoor venue in southern Wake County, nor is there an amphitheater able to accommodate a wide variety of specialized outdoor event programming. The opportunities to expand and grow cultural programming and participation as the population of Fuquay-Varina and southern Wake County continue to grow are substantial.

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Economic Viability

Cultural arts and entertainment consistently play an important role in the revitalization and growth of communities. The amphitheater will be a unique regional draw that directly supports a growing Fuquay-Varina arts cultural district. By expanded programming, consolidated and cooperative events and planning, the growing downtown arts district will be a business magnet, encouraging restaurants, retailers, and service industries to be part of an energized downtown area. Numerous studies have affirmed the positive economic impact of the arts in a community.

Arts, Cultural and Tourism

The Town will soon complete the Fuquay-Varina Arts Center a combination renovation/new construction project in downtown Fuquay-Varina. When completed, the Arts Center will be home to an art gallery, a 300-seat theatre, dance, paint, and digital studios and multiple classrooms. Anticipated completion of the \$5.1M project is late May 2018. The Arts Center will serve the community by making visual and performing arts opportunities available, serving as a creative and educational resource and harnessing the economic vitality of the arts. The amphitheater venue supports the strong cultural arts movement underway in Fuquay-Varina.

Education

The performing arts and cultural experience are an important component of educating and nurturing students. The Fuquay Mineral Spring Park Amphitheatre will offer opportunities for teachers and students alike to foster an investment in the development of well-rounded, creative students. Substantial research underscores the benefits of cultural arts education in developing students' abilities to become creative thinkers and, ultimately, to be prepared to participate in a global community.

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Project Budget and Funding Sources

Project Revenues

| FY Year | Source | Amount | Percentage | Status |
|------------------|---------------------------------------|------------------|-------------------|---------------|
| 2018-2019 | Five-Year Capital Plan (Town) | \$250,000 | 71% | Committed |
| 2018-2019 | Wake Company Major Facilities Request | \$85,000 | 24% | Pending |
| 2017-2018 | Appropriation Unassigned Fund Balance | \$15,000 | 5% | Pending |
| | Total | \$350,000 | 100% | |

Project Expenditures

| FY Year | Source | Amount | Percentage | Status |
|------------------|--|------------------|-------------------|---------------|
| 2017-2018 | Planning, Design and Construction Admin. | \$41,000 | 12% | Pending |
| 2018-2019 | Construction | \$220,000 | 62% | Pending |
| 2018-2019 | Fixtures/Furniture | \$80,000 | 23% | Pending |
| 2018-2019 | Other | \$9,000 | 3% | Pending |
| | Total | \$350,000 | 100% | |

At this time, the Town has identified funding in its Five-Year Capital Projects FY 2021-2022 to make amphitheatre improvements to the Fuquay Mineral Spring Park. If awarded funding, and a funding agreement is in place with Wake County, the Town would accelerate the design phase of this project and re-appropriate funding in this upcoming Town fiscal year budget to procure the amphitheater project. Securing county funding will also provide certainty the project is competed as future year projects in the latter part of the Town's Five-Year Plan ultimately risk being deferred or reprioritized based on economic and fiscal conditions, increase construction costs, as well as funding priorities that may change over time.

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Impact on Infrastructure

The project location in downtown Fuquay-Varina has adequate sewer and water capacity to support and serve the outdoor venue. The location is highly accessible and is part of a very walkable downtown. The location of the venue in the downtown core is ideal, as the facility can be efficiently served by the existing infrastructure already in place. The Town of Fuquay-Varina recently conducted a downtown parking plan that demonstrates adequate surface lots and on-street parking opportunities capable of serving the project site.

Project Timeline

| Project Action | Start Date | Finish Date |
|----------------------------------|-------------------|--------------------|
| Preliminary Design | July 2018* | September 2018 |
| Architectural/Engineering | October 2018 | March 2019 |
| Facility Construction | April 2019 | August 2019 |
| Equipment Purchase | April 2019 | August 2019 |
| Open to Public | September 2019 | |

Note: The project timeline will need to be adjusted based on the date of a funding agreement with Wake County.

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Project Operating Plan

Fuquay Mineral Spring Park is currently one of the 21 facilities operated and maintained by the Town's Parks, Recreation and Cultural Resources Department; operating expenses are included in the department's budget within the Town General Fund. As this facility is already currently maintained, the main increase in operating cost associated with the amphitheater would be the direct cost of special event programming. No additional full-time staff would need to be included in the operation of the amphitheater other than current full-time staff and part-time staff during special events. Based on the Town's experience with staffing concerts and other events, staff typically work modified work schedules and occasionally use part time staff and/or overtime to provide staffing at these events. Below is an estimated 10-year Operating Budget for the project:

| Operating Budget Summary | 2019 | 2024 | 2029 |
|---------------------------------|------------------|------------------|------------------|
| | | | |
| Revenue | | | |
| Rental Income | \$ 5,000 | \$ 6,250 | \$ 9,375 |
| Sponsorships | \$ 16,000 | \$16,500 | \$18,000 |
| Naming Rights | \$ 10,000 | \$15,000 | \$ 15,000 |
| Town Funding - Operating | \$ 25,000 | \$ 34,500 | \$ 35,625 |
| Total Revenue | \$ 56,000 | \$72,250 | \$ 78,000 |
| | | | |
| Operating Expenses | | | |
| Talent Contracts | \$ 17,500 | \$ 25,000 | \$ 25,000 |
| Administration/Staff | \$ 10,000 | \$ 12,500 | \$ 15,000 |
| Maintenance | \$ 12,500 | \$ 15,000 | \$ 18,000 |
| Marketing | \$ 10,000 | \$ 10,000 | \$ 8,000 |
| Utilities | \$ 6,000 | \$ 10,000 | \$ 12,000 |
| Total Operating Expenses | \$ 56,000 | \$ 72,250 | \$ 78,000 |

Estimates on Visitors

Visitor estimates for the Fuquay Mineral Spring Park Amphitheater 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. Additionally, the revenue impact is understated as an increase in restaurant sales will result in an overall increase in sales tax revenue in addition to the increase in prepared food and beverage tax. The Fuquay Mineral Spring Park Amphitheater is expected to serve as an economic and cultural catalyst in the downtown Fuquay District, supporting Fuquay-Varina's cultural arts district and serving as a gateway into the downtown.

The success of this project will encourage the growth of private cultural arts, entertainment, performances, exhibits and outdoor films. Additionally, this increase in activity will create a higher demand for restaurant visits and will encourage investment particularly in the areas of mixed use, restaurant, and retail. This investment supports the Town's goal of mixed use infill development recruitment, identified as part of the Town's Economic Development Strategy, and aligns well with the Town's current collaboration with the UNC Development Finance Institute in support of realizing this goal. These indirect impacts will positively impact the property tax and sales tax base, while creating income and jobs.

The Town has been aggressively pursuing new development and rehabilitation projects to create economic opportunity throughout its downtown. The Town is currently working with a development firm to create a 250 apartment, 25,000 SF retail space, mixed-use development project in the heart of the downtown Fuquay District. This transformational project is expected to result in \$40 million of new, private sector investment. The Town, having recently acquired a 30,000 SF commercial building, will increase its downtown presence by renovating the new acquisition for use as its Town Hall Facility adjacent to this project. With the addition of 250 new apartments, new businesses and office space downtown, the community has an opportunity to continue the momentum of making strategic capital investments that support cultural arts and entertainment. The Town has also made significant investments in sidewalks to connect the Downtown to lower-income communities, to ensure that job opportunities and Town cultural arts programming and events are accessible to all of Fuquay-Varina's residents.

As an ancillary use to the Fuquay-Varina Arts Center, the Fuquay Mineral Spring Park Amphitheater will support the Arts Center's current estimates for usage of 7,400 participants/visitors annually for day-time programming, and 9,600 participant/visitors annually for evening programming, with an expectation that those numbers will increase as rental opportunities increase and programming becomes more refined.

(VISITATION/PARTICIPATION RATE – NEXT PAGE)

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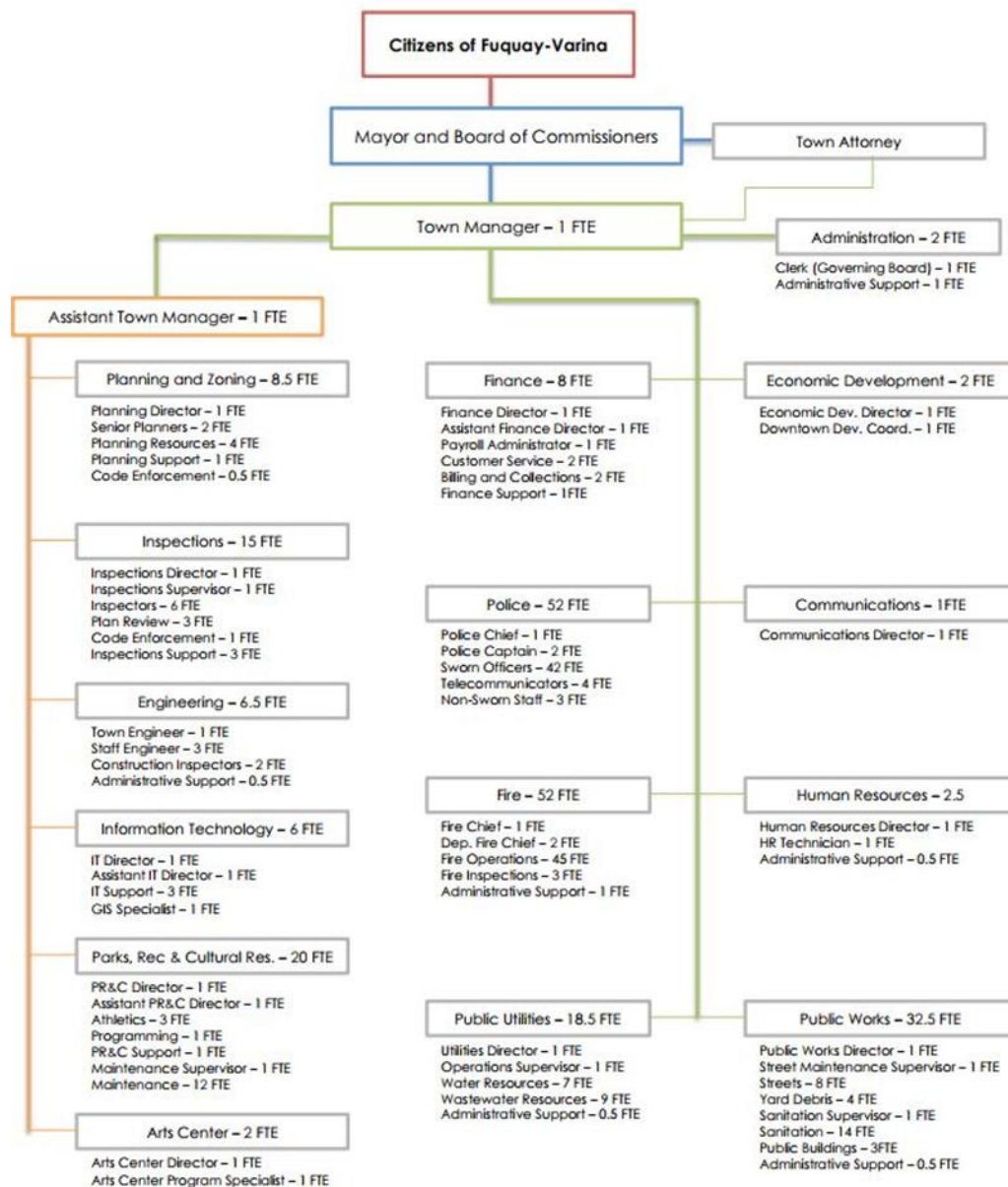
| Day time visitation | Annually | Avg # participants | Total # |
|---------------------------------------|------------------------|---------------------------|----------------|
| Art classes | 150/year | 10 | 1500 |
| Track out Camps | 10/year | 25 | 250 |
| Dance Classes | 100/year | 15 | 1500 |
| Perf Arts Classes | 60/year | 25 | 1500 |
| Summer Camps | 10/year | 25 | 250 |
| School Shows | 8/year | 300 | 2400 |
| | | Total | 7,400 |
| Evening Visitation | Annually | Attendance | Total |
| Community theatre performances | 5 shows, 3 perfs ea | 250, ea | 3,750 |
| Special Event Book-Ins | 6 | 250, ea | 1,500 |
| Youth Productions | 3 shows, 2 perfs ea | 300, ea | 1,800 |
| Movie Nights | 9 | 150, ea | 1,350 |
| Family Perfs | 3 shows, 2 perfs ea | 200, ea | 1,200 |
| | | Total | 9,600 |

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Organization Information

The Town of Fuquay-Varina is a municipality, with operations overseen by a Town Manager under the policy direction of a Mayor and five Commissioners elected at large. 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



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Attachments

Attachment 1: Visitor Spending and Return on Investment Estimate

Attachment 2: FY 2017 Town of Fuquay-Varina CAFR: Management Discussion and Analysis

Attachment 1: Visitor Estimates and Return on Investment

Definitions:

- a. **Wake County resident** - visitor from within Wake County
- b. **Day Visitor** - Visitor from outside of Wake County that doesn't spend the night
- c. **Overnight Visitor** - Visitor from outside 50 mile radius of proposed project that spend the night (include total number of nights if visitor will stay multiple nights)

Hotel Room Rate = \$102/per night

Meal Rate on Day Trip = \$23.40/per day **Meal Rate on Overnight Trip** = \$26.10/per day

Visitor Estimates, Economic Impact and Taxes Collected

1. Estimated Wake County residential visitors (annual) = 11,900

| Estimated Food and Beverage Spending and Taxes Collected | | | | | |
|---|--------------------|--------------------------|-------------------|-----------------------|-------------------|
| 2. Estimated Day Visitors (annual) = | Number of Visitors | | Meal Rate | Meal Spending | |
| | <u>7,400</u> | X | \$23 | = | <u>\$ 170,496</u> |
| 3. Estimated Overnight Visitors (annual) = | <u>9,600</u> | X | \$26 | = | <u>\$ 250,560</u> |
| | | 4. Total Meal Spending = | <u>\$ 421,056</u> | X 1% Food & Bev Tax = | <u>\$ 4,211</u> |

| Estimated Hotel/Motel Spending and Taxes Collected | | | | | |
|---|-----------------------|------------|-----------------|-----------|--|
| | Number of ON Visitors | Party Size | Number of Rooms | Room Rate | Room Spending |
| 5. Estimated Overnight Rooms (annual) = | <u>3,220</u> | ÷ 1.69 | = <u>1,905</u> | X \$102 | = <u>\$194,343</u> |
| 6. Total Room Spending = | | | | | <u>\$194,343</u> x 6% Occupancy tax = <u>\$ 11,661</u> |

7. Return on Investment based on taxes collected (County funding/total taxes collected) = 7.3 (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, 2017, 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, 2017, 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.F to the basic financial statements, a new reporting standard was implemented, which resulted in a restatement of net position as of June 30, 2016 for governmental activities. 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, 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 and other schedules 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, and other schedules 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 13, 2017, 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.

Cherry Bekaert LLP

Raleigh, North Carolina
October 13, 2017

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2017

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, 2017. 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 \$160 million (net position). Of this amount \$40 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 \$33.9 million about 10% more than the prior fiscal year. The majority of this increase was due to an increase in the Capital Projects Fund where projects and funds were authorized but not expended during the course of the fiscal year.

As of the close of the fiscal year, the Town's unassigned fund balance for the General Fund was \$17.4 million or 66% 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 \$2.6 million during the 2016-2017 fiscal year. Total debt decreased because the Town paid principal payments during the year and entered into no additional debt. The Town's bond rating is Aa1 by Moody's Investor's Service and AAA by Standard and Poor's Corporation. Neither rating changed during the course of the fiscal year.

On a government-wide basis, the Town's program expenses exceeded revenues by just over \$6 million. Governmental activity expenses were \$9.8 million more than program revenues while business-type activities program revenues exceeded expenses by \$3.4 million.

Overview of the Financial Statements

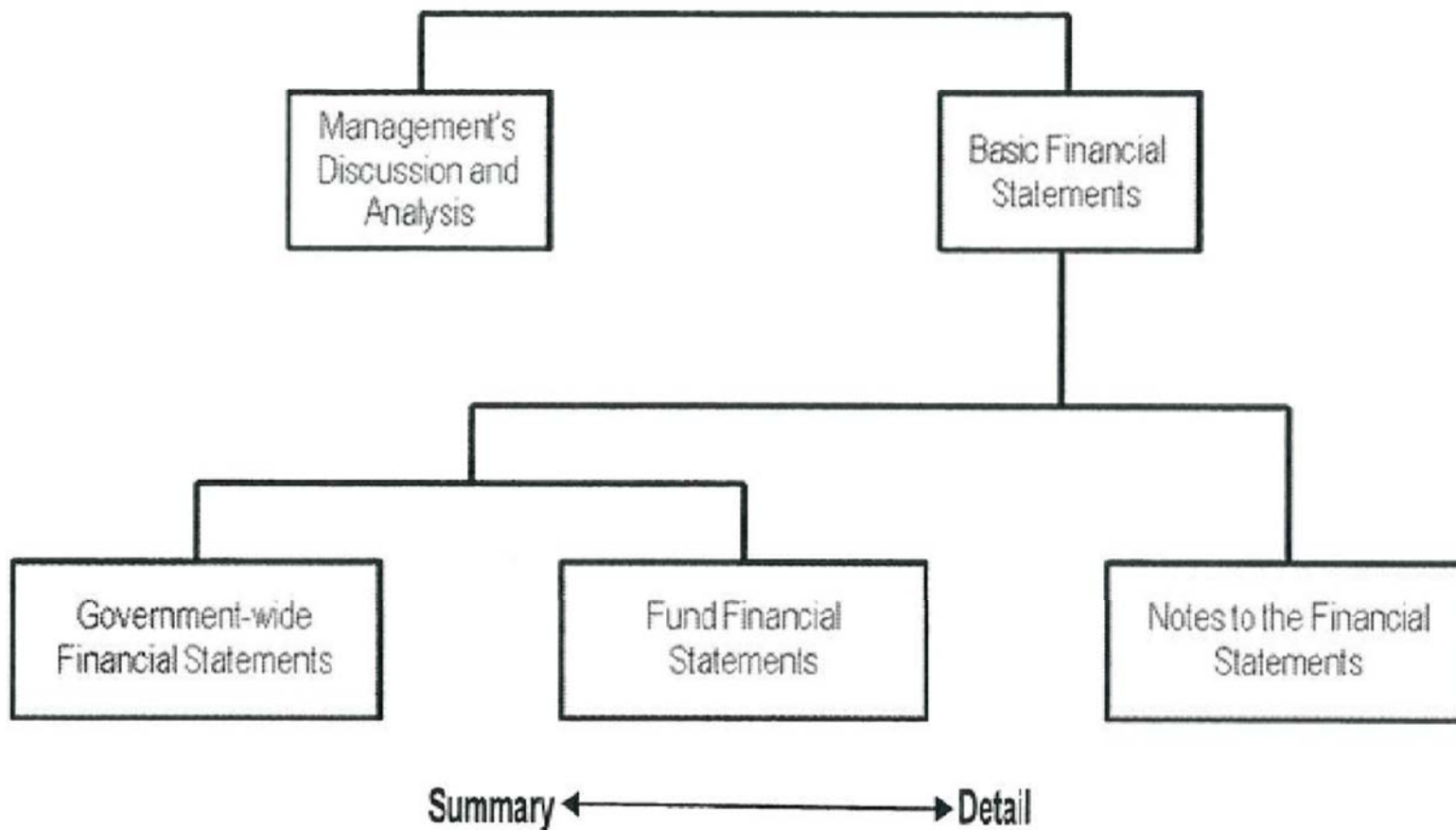
This discussion and analysis are intended to serve as an introduction to Fuquay-Varina's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see 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, 2017

Required Components of Annual Financial Report

Figure 1



TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2017

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, 2017

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 governmental-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.

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

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2017

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 71-74 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 75-88 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 \$160 million as of June 30, 2017.

The largest portion (72%) 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, \$4.6 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$40 million is unrestricted.

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

JUNE 30, 2017

The following table reflects the condensed Statement of Net Position:

Net Position
June 30, 2017
With Prior Year Comparisons

| | June 30, 2016 Governmental Activities | June 30, 2017 Governmental Activities | June 30, 2016 Business-Type Activities | June 30, 2017 Business-Type Activities | June 30, 2016 Total | June 30, 2017 Total |
|--|--|--|---|---|--------------------------------|--------------------------------|
| Current and other assets | \$ 30,958,132 | \$ 33,269,657 | \$ 16,143,104 | \$ 17,487,749 | \$ 47,101,236 | \$ 50,757,406 |
| Restricted assets and cash equivalents | 1,728,970 | 2,150,704 | 30,911,524 | 10,871,530 | 32,640,494 | 13,022,234 |
| Capital assets | 74,530,803 | 81,057,246 | 61,407,243 | 85,638,366 | 135,938,046 | 166,695,612 |
| Total assets | <u>107,217,905</u> | <u>116,477,607</u> | <u>108,461,871</u> | <u>113,997,645</u> | <u>215,679,776</u> | <u>230,475,252</u> |
| Deferred outflows of resources | <u>585,970</u> | <u>3,101,428</u> | <u>182,004</u> | <u>413,927</u> | <u>767,974</u> | <u>3,515,355</u> |
| Long-term debt outstanding | 17,539,881 | 20,286,786 | 50,108,105 | 48,486,607 | 67,647,986 | 68,773,393 |
| Other liabilities | 1,919,849 | 1,647,757 | 1,838,724 | 2,858,735 | 3,758,573 | 4,506,492 |
| Total liabilities | <u>19,459,730</u> | <u>21,934,543</u> | <u>51,946,829</u> | <u>51,345,342</u> | <u>71,406,559</u> | <u>73,279,885</u> |
| Deferred inflows of resources | <u>519,934</u> | <u>315,959</u> | <u>53,738</u> | <u>29,371</u> | <u>2,482</u> | <u>345,330</u> |
| Net Position: | | | | | | |
| Net Investment in Capital Assets | 59,671,228 | 67,288,658 | 42,255,155 | 48,342,138 | 101,926,383 | 115,630,796 |
| Restricted for: | | | | | | |
| Stabilization by State Statute | 2,137,180 | 2,742,433 | - | - | 2,137,180 | 2,742,433 |
| Powell Bill | 1,425,482 | 1,847,216 | - | - | 1,425,482 | 1,847,216 |
| Other purposes | 4,061 | 1,698 | - | - | 4,061 | 1,698 |
| Unrestricted | <u>24,586,260</u> | <u>25,448,528</u> | <u>14,388,153</u> | <u>14,694,721</u> | <u>38,974,413</u> | <u>40,143,249</u> |
| Total net position | <u>\$ 87,824,211</u> | <u>\$ 97,328,533</u> | <u>\$ 56,643,308</u> | <u>\$ 63,036,859</u> | <u>\$ 144,467,519</u> | <u>\$ 160,365,392</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.

The Town's net position increased by \$15.9 million during the current fiscal year. Governmental net position increased by \$9.5 million while business-type net position increased by \$6.4 million. The increase in governmental net position was due increases in capital assets and increases in unrestricted net assets. The following table summarizes the changes in net assets.

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

JUNE 30, 2017

Changes in Net Position
June 30, 2017
With Prior Year Comparisons

| | June 30, 2016 Governmental Activities | June 30, 2017 Governmental Activities | June 30, 2016 Business-Type Activities | June 30, 2017 Business-Type Activities | June 30, 2016 Total | June 30, 2017 Total |
|---|--|--|---|---|--------------------------------|--------------------------------|
| Revenues | | | | | | |
| Program Revenues | | | | | | |
| Charges for service | \$ 3,771,610 | \$ 4,274,113 | \$ 8,890,450 | \$ 9,857,763 | \$ 12,662,060 | \$ 14,131,876 |
| Operating grants and contributions | 2,264,833 | 2,747,817 | 421,623 | 450,724 | 2,686,456 | 3,198,541 |
| Capital grants and contributions | 6,879,137 | 7,354,789 | - | - | 6,879,137 | 7,354,789 |
| General Revenues | | | | | | |
| Property taxes | 10,381,919 | 12,827,696 | - | - | 10,381,919 | 12,827,696 |
| Other taxes | 146,994 | 156,356 | - | - | 146,994 | 156,356 |
| Grants and donations not restricted to specific programs | 6,170,610 | 6,518,808 | - | - | 6,170,610 | 6,518,808 |
| Other | 253,462 | 389,587 | 3,215,181 | 3,211,109 | 3,468,643 | 3,600,696 |
| Donation of Capital Assets | - | - | 3,227,899 | 3,573,619 | 3,227,899 | 3,573,619 |
| Total Revenues | <u>29,868,565</u> | <u>34,269,166</u> | <u>15,755,153</u> | <u>17,093,215</u> | <u>45,623,718</u> | <u>51,362,381</u> |
| Expenses | | | | | | |
| General government | 2,230,489 | 2,422,468 | - | - | 2,230,489 | 2,422,468 |
| Public safety | 8,434,870 | 9,928,712 | - | - | 8,434,870 | 9,928,712 |
| Transportation | 3,119,951 | 3,312,049 | - | - | 3,119,951 | 3,312,049 |
| Economic and physical development | 748,065 | 1,348,022 | - | - | 748,065 | 1,348,022 |
| Environmental protection | 1,532,867 | 1,993,861 | - | - | 1,532,867 | 1,993,861 |
| Cultural and recreation | 2,619,085 | 2,848,281 | - | - | 2,619,085 | 2,848,281 |
| Central services | 1,879,646 | 1,862,326 | - | - | 1,879,646 | 1,862,326 |
| Special contributions | 110,500 | 66,227 | - | - | 110,500 | 66,227 |
| Interest on long-term debt | 493,893 | 409,393 | - | - | 493,893 | 409,393 |
| Water and sewer | | | 9,666,387 | 10,479,944 | 9,666,387 | 10,479,944 |
| Total Expenses | <u>21,169,366</u> | <u>24,191,339</u> | <u>9,666,387</u> | <u>10,479,944</u> | <u>30,835,753</u> | <u>34,671,283</u> |
| Increase in net position before transfers | 8,699,199 | 10,077,827 | 6,088,766 | 6,613,271 | 14,787,965 | 16,691,098 |
| Transfers | - | 219,720 | - | (219,720) | - | - |
| Increase in net position | 8,699,199 | 10,297,547 | 6,088,766 | 6,393,551 | 14,787,965 | 16,691,098 |
| Prior period adjustment | - | (793,225) | - | - | - | (793,225) |
| Net Position July 1 | 79,125,012 | 87,824,211 | 50,554,542 | 56,643,308 | 129,679,554 | 144,467,519 |
| Net Position June 30 | <u>\$ 87,824,211</u> | <u>\$ 97,328,533</u> | <u>\$ 56,643,308</u> | <u>\$ 63,036,859</u> | <u>\$ 144,467,519</u> | <u>\$ 160,365,392</u> |

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2017

Changes in net position – Governmental activities. The Town's total governmental revenues were \$34.3 million. Thirty-seven and a half percent of the Town's revenue comes from property taxes, with an additional forty-eight and a half 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 \$17.1 million. Charges for services represented 58% of the business-type revenue.

The total cost of all programs and services was \$34.7 million. The cost of public safety programs (building inspections, police, fire and contracted rescue services) accounted for 29% of expenses. Water distribution and sewer collection costs accounted for another 30% 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, 2017
With Prior Year Comparisons

| | Total Cost of Services June 30, 2016 | Total Cost of Services June 30, 2017 | Net Cost of Services June 30, 2016 | Net Cost of Services June 30, 2017 |
|-----------------------------------|---|---|---|---|
| General government | \$ 2,230,489 | \$ 2,422,468 | \$ 2,200,900 | \$ 2,344,782 |
| Public safety | 8,434,870 | 9,928,712 | 5,792,100 | 6,800,790 |
| Transportation | 3,119,951 | 3,312,049 | (4,387,056) | (4,713,598) |
| Environmental protection | 1,532,867 | 1,993,861 | (70,781) | 276,016 |
| Cultural and recreation | 2,619,085 | 2,848,281 | 1,580,954 | 1,559,687 |
| Economic and physical development | 748,065 | 1,348,022 | 653,630 | 1,208,997 |
| Central services | 1,879,646 | 1,862,326 | 1,879,646 | 1,862,326 |
| Special contributions | 110,500 | 66,227 | 110,500 | 66,227 |
| Interest on long-term debt | 493,893 | 409,393 | 493,893 | 409,393 |
| Water and sewer | 9,666,387 | 10,479,944 | (2,873,585) | (3,402,162) |
| | <u>\$ 30,835,753</u> | <u>\$ 34,671,283</u> | <u>\$ 5,380,201</u> | <u>\$ 6,412,458</u> |

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2017

The reported results for the fiscal year show that:

The cost of all program activities this year was \$34.7 million.

The amounts paid by those benefiting from the program or other governments and organizations that subsidized certain programs were \$28.3 million.

Program expenses exceeded program revenues by \$6.4 million. Water and sewer program revenues exceeded expenses by \$3.4 million while governmental program revenue fell short of expenses by approximately \$9.8 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 \$33.9 million, an increase of 10%. The increase was due to an increase in unexpended Capital Projects funds. Approximately \$17.4 million (51%) 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 \$17.4 million or 66% 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 \$.3 million during the current fiscal year. The increase was due to an increase in Powell Bill Fund Balance.

The difference between the original budget and the final amended budget was \$4.4 million. The majority of this was due to the transfer of money from the General Fund to the Capital Projects Fund for the construction of the Arts Center. Other amendments were for a fire truck and for additional cost associated with the town's branding project. 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 \$4.0 million. Actual revenues exceeded anticipated revenues by \$1.1 million. Property tax and sales tax were the primary reasons for this excess. Actual expenditures were \$2.9 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, 2017

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 \$14.7 million, 2% 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, 2017, amounts to \$167 million (net of accumulated depreciation). This investment in capital assets includes land, building improvements and equipment. The total net increase in the Town's investment in capital assets for the current year was \$30.8 million.

| | June 30, 2016 Governmental Activities | June 30, 2017 Governmental Activities | June 30, 2016 Business-Type Activities | June 30, 2017 Business-Type Activities | June 30, 2016 Total | June 30, 2017 Total |
|--------------------------|---|---|--|--|------------------------|------------------------|
| Land | \$ 21,445,250 | \$ 22,679,931 | \$ 422,378 | \$ 422,378 | \$ 21,867,628 | \$ 23,102,309 |
| Construction in Progress | 7,316,953 | 1,888,048 | 4,255,486 | 26,423,896 | 11,572,439 | 28,311,944 |
| Buildings | 8,050,904 | 14,546,254 | 7,199 | 5,103 | 8,058,103 | 14,551,357 |
| Other Improvements | 1,047,954 | 955,235 | 45,561,584 | 47,292,357 | 46,609,538 | 48,247,592 |
| Equipment | 824,008 | 1,181,152 | 397,506 | 429,276 | 1,221,514 | 1,610,428 |
| Vehicles | 3,080,250 | 3,059,915 | 265,991 | 214,005 | 3,346,241 | 3,273,920 |
| Infrastructure | 32,765,484 | 36,746,711 | - | - | 32,765,484 | 36,746,711 |
| Operating Plants | - | - | 10,497,099 | 10,851,351 | 10,497,099 | 10,851,351 |
| Total | <u>\$ 74,530,803</u> | <u>\$ 81,057,246</u> | <u>\$ 61,407,243</u> | <u>\$ 85,638,366</u> | <u>\$ 135,938,046</u> | <u>\$ 166,695,612</u> |

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2017

Additional information on the Town's capital assets can be found on pages 42-45 of the notes to the financial statements of this report.

Long-term debt. No new debt was issued during the 2016-2017 Fiscal Year.

At the end of the fiscal year, the Town had total general obligation debt outstanding of \$10.8 million. Of the general obligation debt, 35 percent was issued for water and sewer capital projects.

The Town's total debt increased by \$1.3 million during the fiscal year, when pension liability, compensated absences and OPEB liability are included. Following is a chart which illustrates the composition of the debt for the Town.

| | June 30, 2016 Governmental Activities | June 30, 2017 Governmental Activities | June 30, 2016 Business-Type Activities | June 30, 2017 Business-Type Activities | June 30, 2016 Total | June 30, 2017 Total |
|--------------------------|---|---|--|--|------------------------|------------------------|
| General Obligation Bonds | \$ 7,525,000 | \$ 7,025,000 | \$ 4,515,000 | \$ 3,780,000 | \$ 12,040,000 | \$ 10,805,000 |
| Revenue Bonds | - | - | 30,185,000 | 30,185,000 | 30,185,000 | 30,185,000 |
| Promissory Notes | 180,000 | 120,000 | 10,207,353 | 9,279,412 | 10,387,353 | 9,399,412 |
| Installment Purchases | 7,360,000 | 6,740,000 | 1,200,000 | 1,100,000 | 8,560,000 | 7,840,000 |
| Net Pension Liability | 753,252 | 3,660,801 | 79,351 | 402,412 | - | 4,063,213 |
| Net LEOSA obligation | 793,225 | 811,166 | | | | |
| Net OPEB Obligation | 898,090 | 1,054,806 | - | - | 898,090 | 1,054,806 |
| Compensated Absences | 622,009 | 687,937 | 60,808 | 62,451 | 682,817 | 750,388 |
| Total | \$ 18,131,576 | \$ 20,099,710 | \$ 46,247,512 | \$ 44,809,275 | \$ 62,753,260 | \$ 64,097,819 |

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 \$209 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 60-70 of this report.

TOWN OF FUQUAY-VARINA, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

JUNE 30, 2017

Economic Factors and Next Year's Budget

In preparing the 2017-2018 Budget, the Town's administration assumed moderate growth and reflected increases in property tax, sales tax and building permit revenues. A total of 16.5 additional positions were funded due to the increase in growth experienced during the 2016-2017 fiscal year.

Budget Highlights for Fiscal Year Ending June 30, 2018

Governmental Activities: The approved FY 17-18 General Fund budget was approximately 11% more than the FY 16-17 budget ordinance adopted in June of 2016. Almost half of the increase can be attributed to personnel increases. The town implemented the recommendations of a Pay Study which was completed in the 2016-2017 Fiscal Year, enacted a three percent cost of living increase and hired 15.5 additional employees. Other increase were due to the operation of the new Arts Center scheduled to go online in April of 2018 and a downtown mixed use project scheduled to be get started during the fiscal year. A \$900,000 fund balance appropriation was included in the 2017-2018 Budget to assist with the mixed use project.

Sixteen and a half positions were added as a part of the budget. This included 5 new police officers, 4 new firefighters, 1 person in engineering, 5 persons in planning, 1 new inspector, 1 new arts center worker, 1 person in parks and recreation, 1 person in information technology and 1 person in the utilities department. A three percent cost of living increase was also included in the budget for all full-time employees.

Business Activities: The approved FY 17-18 Enterprise Fund Budget was approximately 22 percent more than FY 16-17 Budget adopted in June of 2016. Most of the increase was due to maintenance and Capital Projects included in the budget. As in the General Fund, a three percent raise was included for employees and significant project expenditures were included in the budget.

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.