



CITY OF DURHAM | NORTH CAROLINA

**DATE:** January 13, 2011  
**TO:** Thomas J. Bonfield, City Manager  
**THROUGH:** Wanda S. Page, Deputy City Manager  
**FROM:** David Boyd, Finance Director  
**RE:** FY 2010-11 Budget Amendment Requests

### **EXECUTIVE SUMMARY**

The Finance Department is recommending several amendments to the previously adopted 2010-11 City of Durham Budget Ordinance as well as several Capital Project and Grant Ordinances. The requested amendments to the budget are for the following, primarily technical, reasons:

1. To close out completed capital projects and to transfer a portion of closed project savings to the General Services ADA Compliance project.
2. To record the issuance and refunding of debt that occurred earlier in the fiscal year.
3. To create a debt service fund for the purpose of capturing property tax revenues necessary to pay general fund debt service.
4. To complete the transition of all solid waste related costs from the General Fund to the Solid Waste Disposal Fund.
5. To write-off various inter-fund loans considered satisfied and close out the no longer necessary Transit Investment Fund.
6. To transition the Downtown Revitalization Fund and Downtown Business Assistance Fund (commonly recognized as the "Downtown Fund") from Special Revenue Funds to the General Fund as required by the Governmental Accounting Standards Board's (GASB) Statement No. 54.
7. To realize savings on the purchase of Fleet vehicles by purchasing Crown Victoria model police vehicles now, rather the more expensive Caprice vehicles which will be required after FY11.

With the exception of item seven (7) above, it is important to note that none of these amendments will have any material positive or negative effect on the General Fund or any other Fund, but instead will ensure that budgets are aligned with how the related transactions will be recorded in the City's financial statements and will enable the City to continue to utilize best practices in financial reporting.

Item seven (7), the purchase of Crown Victoria police vehicles will result in savings to the City of approximately \$6,446.00 per vehicle. With the Fleet program recommending the

replacement of at least twenty-seven (27) new police vehicles in FY12, the resulting savings to the City will be at least approximately \$174,042.00.

## **RECOMMENDATION**

For the purposes outlined above, the Administration recommends that the City Council;

adopt an ordinance amending the FY 2010-11 City of Durham Budget Ordinance, the same being Ordinance #14040;

adopt an ordinance amending the General Capital Project Ordinance, Fiscal Year 2011, the same being Ordinance #14025;

adopt an ordinance amending the Water and Wastewater Capital Project Ordinance, Fiscal Year 2011, the same being Ordinance #14026;

and finally, that City Council adopt a Resolution Establishing FY 2010-11 Financial Plans for Internal Services Fund (Fleet and Risk) superseding Resolution #9748.

## **COMPONENTS OF PROPOSED AMENDMENT**

### **1 – Amendment to close out completed capital projects and to transfer a portion of closed project savings to the General Services ADA Compliance project**

#### **BACKGROUND**

The Capital Improvement Program (CIP) is a statement of the City of Durham's policy regarding long-range physical development. It is vital to the City because it is the principal planning tool designed to achieve urban growth and development. This program is developed for a six year period and is updated and revised annually. In order to be included in the CIP, the project requires a total expenditure of at least \$100,000 and a useful life of at least 10 years.

By providing a planned schedule, cost estimates, and location of public sector improvements, the Capital Improvement Program provides private sector decision makers with valuable information upon which to base investment decisions. It also provides local elected officials and the public with valuable information concerning proposed public facilities and their associated costs. Ultimately, this coordination of orderly and efficient programs of private and public investment will benefit the City.

#### **ISSUES/ANALYSIS**

The FY2010-2011 Capital Improvements Program is being amended in order to close out old project cost. This will remove \$13,814,527 of cost from the City of Durham's financial system. These projects are complete and capitalized. The budget ordinance amendment is required to recognize the close out of capital projects.

Savings from the project closeouts will also increase the General Services ADA compliance project by \$32,416.

<b>Decrease General Capital Projects</b>	
Culture & Recreation – Section (a)	\$5,813,794
Downtown Revitalization - Section (b)	330,000
Housing & Neighborhood Revitalization – Section (d)	790,200
Technology – Section (f)	1,417,978
Transportation – Section (g)	1,509,664
<b>TOTAL</b>	<b>\$9,861,636</b>

<b>Decrease Water &amp; Wastewater Projects</b>	
Water Section (a)	\$3,448,240
Wastewater Section (b)	504,652
<b>TOTAL</b>	<b>\$3,952,892</b>

<b>Increase General Capital Projects</b>	
General Services –ADA Compliance Section (c)	\$32,416
<b>TOTAL</b>	<b>\$32,416</b>

**2 – Amendment to record the issuance and refunding of debt that occurred earlier in the fiscal year**

**BACKGROUND**

Earlier this year the City issued Limited Obligation Bonds (LOBs) as well as General Obligation Bonds (GO) that provided new money for previously approved projects and refunded various issues of outstanding debt.

**ISSUES/ANALYSIS**

The original budget contained estimated amounts for the debt issuances described above and this amendment is required to record the actual amounts now that the deals have been finalized.

**2010 LOBS**

<b>Increase General Fund Budget for 2010AB LOBS (Refunding &amp; New Debt)</b>	
1998 / 2001 Refunding	\$6,350,000
2008 Bank Loan	12,042,000
Discount	203,430
Cost of Issuance	376,769
Accrued Interest	214,941
Transfer to Transit fund	53,271
<b>TOTAL</b>	<b>\$19,240,411</b>

<b>Increase Transit Fund Budget for 2010AB LOBS (Refunding &amp; New Debt )</b>	
Discount	\$12,005
Cost of Issuance	19,346
2011 Interest Payment	72,411
<b>TOTAL</b>	<b>\$103,762</b>

<b>Increase Ballpark Fund Budget for 2010AB LOBS (Refunding &amp; New Debt )</b>	
1998/2001 Refunding	\$1,780,000
Discount	9,320
<b>TOTAL</b>	<b>\$1,789,320</b>

<b>Increase Fleet Fund Budget for 2010AB LOBS (Refunding &amp; New Debt )</b>	
2008 Bank Loan	\$6,300,000
Discount	73,819
Cost of Issuance	128,807
<b>TOTAL</b>	<b>\$6,502,626</b>

**2010 GO Bonds**

<b>Increase General Fund Budget for 2010AB GO Bonds</b>	
Discount	\$204,220
Cost of Issuance	119,962
<b>TOTAL</b>	<b>\$324,182</b>

<b>Increase Water/Sewer Fund Budget for 2010AB GO Bonds</b>	
Discount	\$29,858
Cost of Issuance	17,539
<b>TOTAL</b>	<b>\$47,397</b>

**Decrease Cost of Issuance and Appropriation from Fund Balance**

<b>Decrease Cost of Issuance Budget for the following Funds:</b>	
General	\$689,291
Water / Sewer	164,625
Fleet	50,000
<b>TOTAL</b>	<b>\$903,916</b>

### **3 – Amendment to create a debt service fund for the purpose of capturing property tax revenues necessary to pay general fund debt service**

#### **BACKGROUND**

In order to budget debt in an efficient manner we are proposing the creation of a Debt Service Fund. The fund will be used to make principal and interest payments for debt that are presently paid from the General Fund. Debt paid from Enterprise Funds will not change.

The creation of the Debt Service Fund requires that the portion of property taxes revenues budgeted in the General Fund for debt principal and interest payments be moved to the Debt Service Fund, the amount is \$24,009,968. There is also \$6,426,807 that will be transferred to the Debt Service Fund from the General Fund. An amount of \$5,146,714 reserved for debt service in the General Fund and \$1,280,093 related to the Downtown Fund debt service.

When adopting the annual budget each year the property tax rate for revenues dedicated to the Debt Service Fund will require adjustment in order for the fund to have sufficient revenues to pay debt. The amount may increase or decrease due to new issuance of debt or reductions when debt principal is retired.

The City of Durham used a Debt Service Fund until 1993 when debt started being paid out of the General Fund. Although the City has software to manage debt payments, the use of a Debt Service Fund will clearly identify and segregate the funds required from property tax revenues that will be used for debt service.

#### **ISSUES/ANALYSIS**

There are no foreseen problems in using a Debt Service Fund as a method to pay debt service and the benefit of separation from other General Fund activity will give a clear and accurate view to those seeking information related to the City's debt.

<b>FY 2011 Debt Payments</b>	<b>General Fund Decrease</b>	<b>Debt Service Fund Increase</b>
<b>Appropriations</b>		
Certificates of Participation Principal	\$ 4,864,000	\$ 4,864,000
General Obligation Bonds Principal	9,954,367	9,954,367
Bank Loan Interest	523,213	523,213
General Obligation Bonds Interest	6,843,121	6,843,121
Certificates of Participation Interest	1,986,138	1,986,138
Limited Obligation Bonds Interest	470,397	470,397
Bank Loan Principal	\$ 648,825	\$ 648,825

**4 – Amendment to complete the transition of all solid waste related costs from the General Fund to the Solid Waste Disposal Fund**

**BACKGROUND**

In order to account for and report accurately the Solid Waste activities, the Solid Waste revenue and expenditure budgets were moved from the General Fund to the Solid Waste Enterprise Fund per Ordinance #14073, on November 15, 2010. The ordinance did not include moving the debt service payments of \$462,094 that is currently budgeted in the General Fund nor did it include the transfer of the open accounts receivables of \$271,932 from the General Fund to the Enterprise Fund. A budget amendment is needed in order to complete such transfers.

**ISSUES/ANALYSIS**

The budget ordinance amendment is required to add the transfers in/out to the appropriate funds as well as increasing/decreasing the FY11 budgeted debt service payments.

<b>Transfer 6/30/10 Accounts Receivable from the General Fund to the Solid Waste Fund</b>	
Increase transfer out to the Solid Waste Fund	\$ 271,932
Increase transfer in from the General Fund	\$ 271,932

<b>FY11 Debt payment</b>	
Decrease General Fund debt service payments	\$ 462,094
Increase Solid Waste debt service payments	\$ 462,094
Increase transfer out to the Solid Waste Fund	\$ 462,094
Increase transfer in from the General Fund	\$ 462,094

**5 – Amendment to write-off various inter-fund loans considered satisfied and close out the no longer necessary Transit Investment Fund**

**BACKGROUND**

Several years ago, funds accumulated in the Transit Investment Fund were loaned for various purposes to the Ballpark Fund and to the General Fund for Parks and Recreation purposes. In the subsequent years, transfers from both the Ballpark Fund and the General to the Transit Investment Fund were made as repayment of these inter-fund loans. During these same years, the General Fund was contributing funding to both the Transit Fund as well as the Ballpark fund to cover any annual cash needs not met by either transit and/or ballpark operating revenues.

**ISSUES/ANALYSIS**

As the General Fund's contribution to the Transit Administration Fund over the years has far exceeded the remaining outstanding inter-fund loan balances (\$229,110) and to eliminate the administrative duplicity of transferring funds as loan repayment while also funding cash shortfalls, it is recommended that these loans be written off. Moreover, since the remaining balance in the Transit Investment Fund has declined to less than \$500,000 it is recommended that this fund be collapsed into the broader Transit Administration Fund for greater simplicity in financial reporting.

<b>FY 2011 Transit Investment Fund</b>	<b>Increase</b>	<b>Decrease</b>
<b>Appropriations</b>		
Transfer to General Fund	\$ 114,555	
Transfer to Ballpark Fund	\$ 114,555	
Transfer to Transit Administration		\$ 215,515
<b>Revenues</b>		
Appropriation from fund balance	\$ 80,246	
Investment Income		\$ 13,593
Transfer to General Fund		\$ 26,529
Transfer to Ballpark Fund		\$ 26,529
<b>FY 2011 General Fund</b>		
<b>Appropriations</b>		
Transfer to Transit Administration	\$ 215,515	
Loan Interest		\$ 5,871
Transfer to Transit Investment Fund		\$ 26,529
<b>Revenues</b>		
Appropriation from fund balance	\$ 68,560	
Transfer from Transit Investment Fund	\$ 114,555	
<b>FY 2011 Ballpark Fund</b>		
<b>Appropriations</b>		
Transfer to Transit Investment Fund		\$ 26,529
Loan Interest		\$ 5,871
Transfer to fund balance	\$ 146,955	
<b>Revenues</b>		
Transfer from Transit Investment Fund	\$ 114,555	
<b>FY 2011 Transit Administration Fund</b>		
<b>Revenues</b>		
Transfer from Transit Investment Fund		\$ 215,515
Transfer from General Fund	\$ 215,515	

**6 – Amendment to transition the Downtown Revitalization Fund and Downtown Business Assistance Fund (commonly recognized as the “Downtown Fund”) from Special Revenue Funds to the General Fund as required by the Governmental Accounting Standards Board’s (GASB) Statement No. 54**

**BACKGROUND**

The Governmental Accounting Standards Board is an independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments, and is recognized as the official source for generally accepted accounting

principles for these governments. In February 2009, the Governmental Accounting Standards Board issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. GASB 54 states that Special Revenue Funds must have a specific revenue source that is the foundation of the fund. Funds that have only specific expenditure requirements may no longer be classified as Special Revenue Funds.

A review of the City's Special Revenue Funds identified four activities which will no longer meet the definition of a Special Revenue Fund, and should be accounted for in the general fund beginning in fiscal year 2011. These activities are the Downtown Revitalization Fund, the Downtown Business Assistance Fund, and the City funding set aside for Employment and Training in fiscal years 2004 and 2005.

## **ISSUES/ANALYSIS**

While the amendment will partially move activity previously accounted for in what was commonly referred to as the "Downtown Fund" into the General Fund, the City's accounting systems will still enable accurate tracking of revenues, expenditures, and fund balance associated with "Downtown Fund" activities. The amendment and associated accounting changes will ensure our compliance with appropriate accounting rules and does not have any impact on the funding of any projects or initiative within the "Downtown Fund". The amendment will increase appropriations in the General Fund by \$6,118,015 with corresponding reductions in appropriations in the "Downtown Fund".

## **7- City Council adopt a Resolution Establishing FY 2010-11 Financial Plans for Internal Services Fund (Fleet and Risk) superseding Resolution #9748**

### **BACKGROUND**

Each year Fleet Management projects a replacement list based on its FASTER replacement module scoring system. The FY 11-12 scoring system recommended that 38 frontline police cars should be replaced. This scoring system is based on industry best business practices.

The current police car model used by the City is the Crown Victoria. March 1, 2011 is the cut off date to order these vehicles. After March 1<sup>st</sup>, the Ford Motor Company will not accept any orders to build the Crown Victoria; they will no longer be producing this model. The new model for police vehicles that Ford will produce will be the Chevy Caprice. The Fleet department projects that the Chevy Caprice will cost approximately \$28,846.00 per car. The current price to purchase a Crown Victoria is \$22,400.00 per car, if orders are placed by March 1, 2011. In addition the Police Department will need to budget funds to purchase cages, backseats and backside door kick protection panels (approx. \$1,530.00 per car).

In order to take advantage of this opportunity Administration recommends transferring \$778,842.00 from the Risk Reduction Fund into the Fleet Acquisition Fund. The funds are currently available in the Risk Reduction Fund. At the beginning of fiscal year 2012 the funds will be transferred back from the Fleet Acquisition Fund into the Risk Reduction Fund. The action is in effect a short-term loan between the two internal service funds.

## **ISSUES / ANALYSIS**

In order to meet the March 1, 2011 purchase deadline, the City must act quickly. Other local governments are also moving forward to make similar purchases, so the supply of vehicles may not be available even after this action is taken.

## **ALTERNATIVES**

City Council could choose not to adopt any portion of the recommended amendments, however, that would not be consistent with prudent financial practices and could result in negative findings from the Local Government Commission and/or the City's external auditors.

## **FINANCIAL IMPACT**

With the exception of item seven (7) as previously discussed, none of the proposed amendments will have any material positive or negative net financial impact on the General Fund or any other Fund. The financial details of each section of the amendment were further described in the issues/analysis sections above.

## **SDBE SUMMARY**

There are no SDBE issues with regard to this item.

### **Attachments:**

Ordinance amending the 2010-11 City of Durham Budget Ordinance, the same being Ordinance #14040

Ordinance amending the General Capital Project Ordinance, Fiscal Year 2011, the same being Ordinance #14025

Ordinance amending the Water and Wastewater Capital Project Ordinance, Fiscal Year 2011, the same being Ordinance #14026;

Resolution Establishing FY 2010-11 Financial Plans for Internal Services Fund (Fleet and Risk) superseding Resolution #9748