



DATE: August 20, 2013

TO: Thomas J. Bonfield, City Manager

THROUGH: Wanda S. Page, Deputy City Manager

FROM: Bertha T. Johnson, Director of Budget and Management Services
David Boyd, Finance Director

RE: **FY 2012-13 Fourth Quarter Financial Report**

Executive Summary

The administration is pleased to present the Fourth Quarter Financial Report for FY 2012-13. This report is based on twelve months of financial information. The administration presents each quarterly report to City Council at a regularly scheduled work session. A presentation of this report will be provided to the City Council at the September 5th work session. The report will also be published on the City's website at: <http://durhamnc.gov/ich/as/bms/Pages/Quarterly-Reports.aspx>

Attached Exhibits

A number of charts and tables are attached to this document to provide the City Council with additional information on the City's financial status in key areas. Below is an overview of the attachments and highlights of activity.

Exhibits 1 & 1A: General and Debt Services Funds Budget-to-Actual Summary and Year End Projections by Department

This provides a summary of budget and actual general fund revenues and expenditures for all departments through the fourth quarter of FY2013. For the last four fiscal years, it has been extremely difficult to forecast revenues due to economic conditions. The City's response to the challenging economic environment has been to monitor revenue collections and make targeted reductions as required to meet the revenue expectations. All departments ended the year within budget. Departments spent \$5.5M less than budgeted, with personnel costs savings of \$2.4M and savings in operating and other costs of \$3.1M.

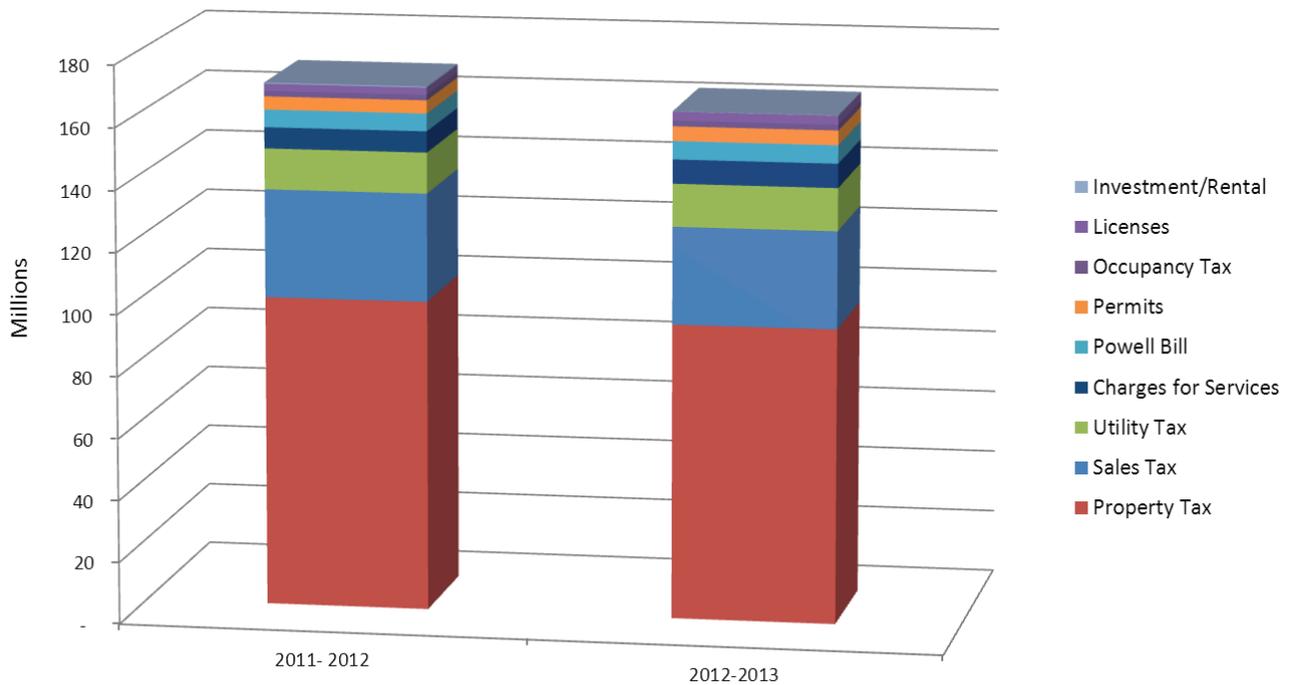
Property Taxes: Year-end collections were at \$134.8M compared to \$129.2M for the same period in FY2012 (positive variance of \$5.6M or 4.35%). The 2013 amount includes property tax in the General Fund, Debt Service Fund, Transit Fund, and Dedicated Housing Fund. The final overall collection rate was 98.83% compared to 98.75% at June 30, 2012. The collection rate for Real Property was 99.36% compared to 99.26% for fiscal year 2012. The collection rate for Motor Vehicles was 90.60% compared to 92.42% in fiscal year 2012. The County Tax Administrator will attend the September 5th Work Session to present the property tax collection report in more detail.

Sales Taxes: The final sales tax payment for FY2013 will not be received until September 2013. An estimate of \$2.9M is used for this report. The payment received last year in September was \$4.4M; however that payment included prior period adjustments therefore, making it difficult to estimate the final payment for FY2013. Based on the \$2.9M estimate for the September payment, sales tax is estimated at \$34.4M, which is down \$0.549M (2%) versus last year, and down \$2.2M (6%) versus budget. The actual sales tax number will be adjusted when the September payment is received.

Other Revenues: At approximately \$13.8M, utility was up \$0.57M compared to last fiscal year (4%). Business License revenue was up \$0.53M (22%) from \$2.42M in FY12 to \$2.95M in FY13. Permits were up \$0.45M (10%) from \$4.28M in FY12 to \$4.72M in FY13 due to continued rebound activity in the economy. Occupancy tax increased to \$1.76M in FY13 compared to \$1.66M FY13, or \$0.104M (6%). Powell Bill increased from \$5.7M in FY12 to \$5.8M FY13, up \$0.180M (3%). Charges for services increased from \$6.9M in FY12 to \$7.8M in FY13, an increase of \$0.927M (14%). Licenses were down from \$2.4M in FY12 to \$2.9M in FY13, a difference of \$0.53M (22%), and Other Intergovernmental was up \$0.22M (-31.2%) from \$3.17M in FY12 to \$3.39M in FY13. Investment and rental income was down \$0.214M (-66%) from \$0.33M in FY12 to \$0.11M in FY13, reflecting continued decline in investment conditions.

The following chart shows a comparison of major revenues for Quarter 4, 2012 and 2013. As shown, total major revenues (excluding property tax) year-end for FY2013 are \$68,599,148 compared to \$69,516,479 for FY2012.

General Fund Major Revenues



General Fund Major Revenues Stoplight

Property Tax		Revenues have decreased 4.92% compared to Fourth Quarter FY12
Sales Tax		Revenues have decreased 9.90% compared to Fourth Quarter FY12
Utility Tax		Revenues have increased 4.32% compared to Fourth Quarter FY12
Licenses		Revenues have increased 21.99% compared to Fourth Quarter FY12
Permits		Revenues have increased 10.43% compared to Fourth Quarter FY12
Occupancy Tax		Revenues have increased 6.32% compared to Fourth Quarter FY12
Powell Bill		Revenues have increased 3.17% compared to Fourth Quarter FY12
Charges for Services		Revenues have increased 13.52% compared to Fourth Quarter FY12
Investment/Rental		Revenues have decreased 66.05% compared to Fourth Quarter FY12

Exhibit 2: Enterprise Fund Budget-to-Actual

This provides a summary of budgeted and actual revenues and expenditures in each enterprise fund. The results for each major fund are summarized below.

Water & Sewer Operating Fund

The Water and Sewer Fund is a self-sufficient enterprise fund deriving all revenues from charges to customers and receives no tax support. The fund has consistently finished each fiscal year in a strong favorable financial position.

Fourth quarter FY 13 results show that the Fund ended the year on a very positive note. Actual and projected revenues exceed operational expenses leaving surplus amounts available for transfer to capital projects funds. Operating revenues are 99.4% of the budgeted operating revenue for FY13 while operating expenses are 85% of the budgeted operating expenses.

Operating revenues are right on target with budget reflecting success in projecting consumption within the rate model. Overall billed consumption was stable with only a negligible 1.15% decline from FY 12. The changes in consumption by class are striking. While residential, commercial, and multi-family were virtually unchanged, there was a 20.8% decrease in irrigation, a 5.7% decrease in institutional, yet a 7.7% increase in industrial consumption.

Nonoperating revenues other than fund balance transfers are 99.6% of budget reflecting conservative estimations of nonrecurring and/or unpredictable revenue such as sales of equipment and late payment charges. Investment income suffered from negative market to market adjustment in May and June sparked by a rapid increase in rates.

Personal services expenditures are 97% of budget due to lapsed salaries across the department, including several hard-to-fill positions which remained vacant for significant portions of the year. Operating expenditures are 85% of budget. This is primarily due to successful rehabilitation and optimization efforts at water and wastewater treatment facilities contributing to lower electricity and chemical costs. Additional savings are attributed to other department wide operating efficiencies.

Debt service principal and interest expense was \$520,000 under budget due to lower interest expense for variable rate general obligation and revenue bonds during the year than estimated at the time of budget preparation reflecting continued depressed market rates.

Non-departmental administration and operating transfers to other funds always equal budget as these are internal transactions of predetermined amounts for value received from other departments or planned contributions to capital funds. Transfers to water and sewer projects account for \$19.2 million of this amount.

The moderate rate increases over the past seven years have stabilized the water and sewer fund and insured compliance with coverage ratios required by revenue bond covenants.

As evidenced by the FY 2014 - 2019 Capital Improvement Program (CIP) budget, both water and wastewater capital needs are substantial with over \$28 million approved in the current year CIP. The anticipated funding from future revenue bonds requires the ability to maintain a healthy current revenue stream for the long term.

Water and Sewer Capital Facility Fee Fund

Capital Facility Fees are derived from charges to new development or facility expansion that result in a greater demand on the City's water supply, water treatment capacity, and wastewater treatment capacity. These fees are transferred to the Water and Sewer Construction Fund and are used to support capital improvements.

Capital Facility Fees do not count as current revenues in the computation of revenue bond covenant debt service coverage. Thus, any increase in these fees will help provide for future capital needs, but not reduce any need for consumption and service charge fee increases related to revenue bond debt covenants.

At the end of the fourth quarter operating revenues are a very favorable 121% of the adjusted budget. Investment income is well below budget, but represents a very small proportion of total revenue. Expenditures consist solely of amounts accumulated in fund balance to be transferred to the Water and Sewer Construction Fund, and as such, are projected to be over \$3.6 million which exceeds the \$2.8M initially adopted in the budget.

Storm Water Management Fund

The Stormwater Management Fund provides for the management and maintenance of operational expenses of stormwater activities which include street cleaning. A transfer is also made from the operating fund to Stormwater Capital Improvement Program project funds for private property and watershed planning and design projects. The Stormwater fund is a self-sufficient enterprise fund and receives no tax support.

At the end of the fourth quarter operating expenditures are 90.8% of the adjusted budget. Personal services costs are 88.5% for the year. Savings can largely be attributed to lapse salary and vacancies throughout fund allocations. Vacancies in street maintenance were high due to reorganization, increased accountability and the reevaluation of personnel needs within the division. Vacancies, coupled with increased efficiencies, led to lower operating expense in the paving and asphalt areas. Stormwater revenue collections were realized at 105.8% of budget for the year. This is a 2.2% increase over last fiscal year and is directly attributed to additional staff being assigned to past due bill collection efforts, GIS analysis identifying unbilled impervious area, and various performance enhancements.

Parking Facilities Fund

The Parking Fund operated within budget expectations for FY 13. Only 92% of operating revenues were realized because of the new County deck and corresponding drop in usage of the surface lot behind the old courthouse and the Church Street garage. The savings on the expenditure side more than offset those revenue shortfalls, and were primarily due to savings realized on parking equipment installation and resulting efficiencies from the installation of that equipment.

Solid Waste Disposal Fund

The Solid Waste Fund received less revenue than originally expected for FY 13. This variance is due to a drop in tipping fee revenues and decrease in State Solid Waste disposal tax revenue. Expenditure costs were lower than budgeted due to vacancies and savings from the new transfer station contract.

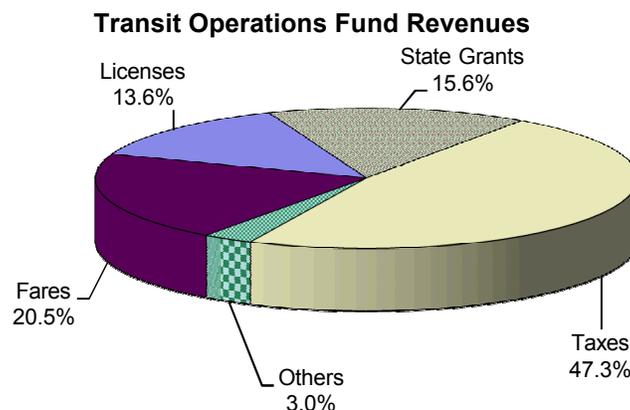
The Solid Waste Disposal Fund received 34% of revenue through charges and other non-tax revenue. The remaining revenue is provided by the General Fund.

Ballpark Fund

The Ballpark Fund currently relies on the General Fund for 69% of the budgeted funding. As expected, the fund finished the year with a slight surplus. This was primarily due to savings in operating expenses and the retirement of one employee. Also, better than expected revenues from facility fees contributed to the surplus.

Transit Operations Fund

The Transit Fund ended the year with a \$110,000 deficit. This was significantly better than the \$270,000 deficit projected as of the 3rd Quarter. There were several contributing factors to this deficit. First, only 91% of budgeted operating revenues were collected. This was entirely due to lower fare box receipts. Non-operating revenues reflect a significant shortfall in State grant funding, more than \$291,000 below budget. The fund's portion of the property tax was also slightly under budget. Higher motor vehicle and other revenues partially offset this known shortfall, and measures were taken to stay within budget through identifying ways to reduce expenditures for Paratransit and fixed route services. This effort was successful in bringing expenditures in \$371,000 under budget



The Transit Operations Fund receives a significant amount of support from property taxes (about 3.2 cents per \$100 on the tax rate). These account for 47.3% of budgeted fund revenues in the FY2013 adopted budget. State grants are another large funding source for the Transit Operations Fund. With fee increases last approved in FY2004, charges to system riders return about 20.5% of the cost of operations. The Transit Operations Fund is not inclusive of federal transit grants, about \$46M for FY2013, which are also used to support the DATA transit system personnel and maintenance costs.

Performing Arts Center

The Performing Arts Center Fund was established in FY2007. The debt service is funded via a dedicated portion of the occupancy tax. Realization of naming rights and operating revenues are important to the fund's success in this and future fiscal years. Operating revenues, occupancy tax, and ticket facility fees continue to come in above budget, resulting in an approximately \$230,000 transfer to fund balance.

DPAC Repair and Maintenance Fund

This fund was established as a capital reserve fund for the Durham Performing Arts Center. Revenues generated from ticket surcharge fees are initially recognized in the Durham Performing Arts Center fund then transferred to this fund for capital expenditures. At fiscal year-end the fund's expenditure budget was not fully expended. The budget rolled to fund balance, and the resources will be used for future repairs and capital projects.

Exhibit 3: Special Revenue & Grant Funds

This provides a summary of spending in each of our major grant funded programs.

Exhibit 4: Investments

This provides a summary of the allocation of our investment portfolio as well as the investment earnings so far during the current fiscal year.

Exhibit 5: Risk

This provides a report of claims payments made to liability claimants in accordance with Council Resolution #8810.

Exhibit 6: Contracts

This provides a summary of the number and type of contracts that were authorized so far during the year.

Exhibit 7: Impact Fees

This table shows the amount of impact fee funds available for streets, open space and parks, by zone. Project obligation by current ordinance is shown. Revenues shown are actual revenues year-to-date.

Exhibit 8: Tax Levy Analysis

This provides tax levy analysis and shows the year-to-date tax collection percentage.

Exhibit 9: Downtown Revitalization Fund

This provides detail of activity in the Downtown Revitalization Fund.

Exhibit 10: Planned Debt Issuance

This report summarizes any actual debt issuance so far for the current fiscal year.

Exhibit 11: Donations Report

This report lists amounts donated to the City of Durham from various sources.

Exhibit 12: Assessment Collection Report

This report lists the status of the delinquent assessment accounts.

Exhibit 13: CIP Stoplight Report

This report summarizes the progress of all Council approved capital projects.