



CITY OF DURHAM | NORTH CAROLINA

DATE: November 21, 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 2013-14 First Quarter Financial Report**

Executive Summary

The administration is pleased to present the First Quarter Financial Report for FY 2013-14. This report is based on three 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 November 21st 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 first quarter of FY2014. 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. It is currently projected that all departments will end the year within budget. The full year estimate indicates that departments will spend \$1.09M less than budgeted, primarily driven by savings in personnel costs (\$816K).

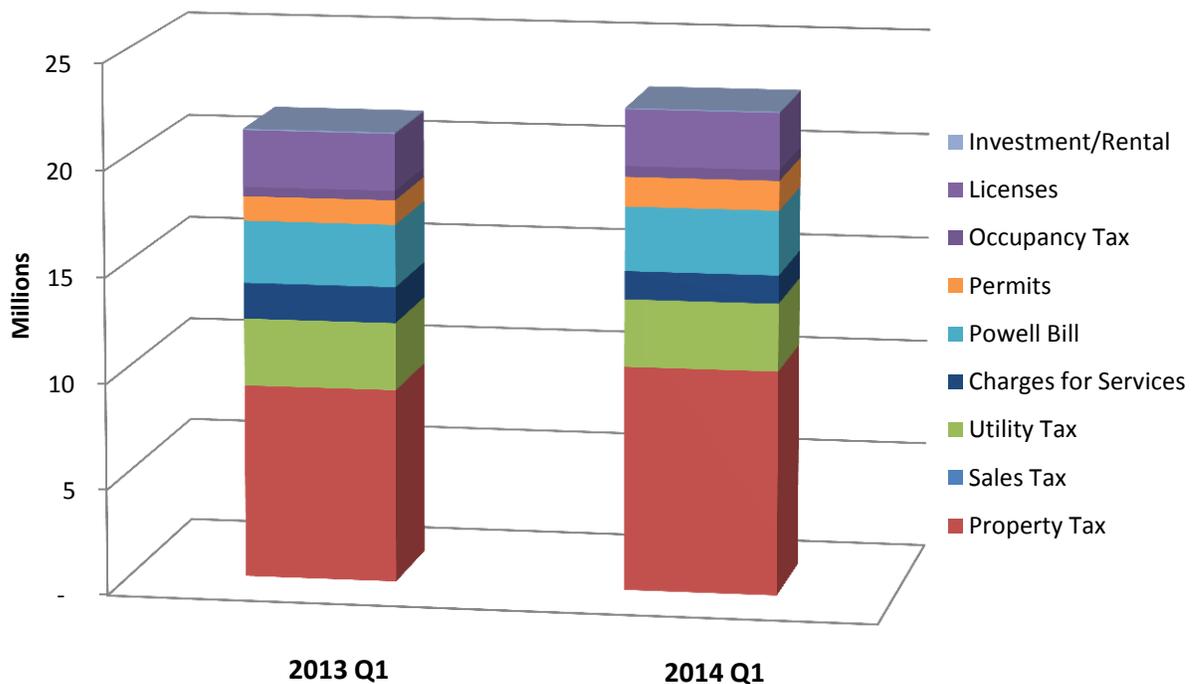
Property Taxes: Collections are at \$10,611,045 compared to \$9,147,904 for the same period in FY2013 (positive variance of \$1.46M or 15.99%). It is projected that the total amount budgeted for property taxes will be collected. The FY2014 budget projected a 98.7% collection rate based on the collections at the 3rd Quarter FY2013. The final collection at June 30, 2013 matched the projection at 98.75%. The 2013 tax bills have been mailed. Property tax payments are to be paid in full by January 5th, 2014.

Sales Taxes: In previous years an estimate was provided for sales tax collections for the 1st quarter. Due to the uncertainty of the collections, this practice has been discontinued therefore \$0 is shown for sales tax for the first quarter FY2014. An update will be provided during the presentation at the work session.

Other Revenues: Utility franchise taxes are down slightly by \$3,876 (0.12%) from \$3,189,843 compared to \$3,193,719 for the same period last fiscal year. Licenses are down slightly by \$19,667 (0.73%) from \$2,663,199 compared to \$2,682,866 for the same period last fiscal year. Permits are up \$233,093 (20.14%), from \$1,390,554 compared to \$1,157,461 for the same period last fiscal year. At approximately \$500,558, occupancy tax collections are up by \$59,756 (13.56%) compared to \$440,802 for the same period last fiscal year, and Powell Bill revenues are up slightly by \$83,749 (2.85%), \$3,025,671 compared to \$2,941,922 for the same period last fiscal year. Charges for services are down by \$372,946 (21.99%) from \$1,323,020 compared to \$1,695,966 for the same period last fiscal year. Finally, investment and rental income is down by \$9,130 (17.19%), \$43,972 compared to \$53,102 for the same period last fiscal year.

The following chart shows a comparison of major revenues for Quarter 1 in 2013 and 2014. As shown, total major revenues year-to-date for FY2014 are \$22,747,862 compared to \$21,313,742 for FY2013, a positive difference of \$1,434,120 (6.73%).

Major Revenues



Major Revenues Spotlight

| | | |
|----------------------|---|---|
| Property Tax | ● | Revenues have increased 15.99% compared to First Quarter FY13 |
| Sales Tax | | |
| Utility Tax | ● | Revenues have decreased 0.12% compared to First Quarter FY13 |
| Licenses | ● | Revenues have decreased 0.73% compared to First Quarter FY13 |
| Permits | ● | Revenues have increased 20.14% compared to First Quarter FY13 |
| Occupancy Tax | ● | Revenues have increased 13.56% compared to First Quarter FY13 |
| Powell Bill | ● | Revenues have increased 2.85% compared to First Quarter FY13 |
| Charges for Services | ● | Revenues have decreased 21.99% compared to First Quarter FY13 |
| Investment/Rental | ● | Revenues have decreased 17.19% compared to First Quarter FY13 |

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

For the first quarter of FY2014, results show that operating revenues were 27% of the budgeted operating revenue while operating expenses were 20% of the budgeted operating expenses. As compared to the first quarter of FY2013, this is slightly less favorable as operating revenues were at 29% while operating expenses were at 18%. Of note is that billed consumption for the first quarter was 4% lower than the same time during FY2013, attributable to moderate temperatures and much higher rainfall than the previous year. This is reflected in the 37% decrease in irrigation consumption and an overall 1.24% decrease in water consumption. During the previous five years, average consumption for the first quarter has been 29% of the annual total, primarily due to irrigation and cooling tower usage.

Since consumption is somewhat dependent on weather patterns, usage may increase during the remainder of the fiscal year. However, it is likely that revenues will be under budget for the fiscal year. If this occurs, the amount of any shortfall is not anticipated to be significant and is not anticipated to have a noticeable impact on future rates or capital funding.

The total revenues for the quarter exceed the total expenses by \$8M. However, surpluses early in the year are offset by end of the year debt service payments of \$18.5M, indirect costs charges of \$6M, and transfer of \$15.3M to capital projects.

Total expenditures are slightly less than anticipated at 16.7% of the total FY2014 budget, but are expected to increase due to equipment and services anticipated to be delivered later in the year. Also, increased cost for water and wastewater treatment chemicals and utilities may impact future quarters.

The Water and Sewer Fund is a self-sufficient enterprise fund deriving all revenues from charges to customers and receives no tax support. All excess funds of revenues over operating and debt expenditures are dedicated to capital projects. The fund has consistently finished each fiscal year in a strong positive financial position.

The rate increases over the past seven years have stabilized the water and sewer fund and therefore ensured compliance with revenue bond covenants. Rate increases in each of the past three years have been less than initially projected due to favorable developments with the Capital Improvement Program (CIP). First, the general economic condition slowing the construction industry resulted in bids for infrastructure projects coming in significantly lower than budgeted. At the same time, the staff has carefully reallocated funding for capital projects to defer where appropriate to responsibly minimize expenditures.

As evidenced by the FY2014-2019 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. The Department budgeted a \$15.3M transfer to the CIP in FY2013-2014 and will continue its efforts to maximize revenues and ensure rate-payers' dollars are expended efficiently and effectively.

Water and Sewer Capital Facility Fee Fund

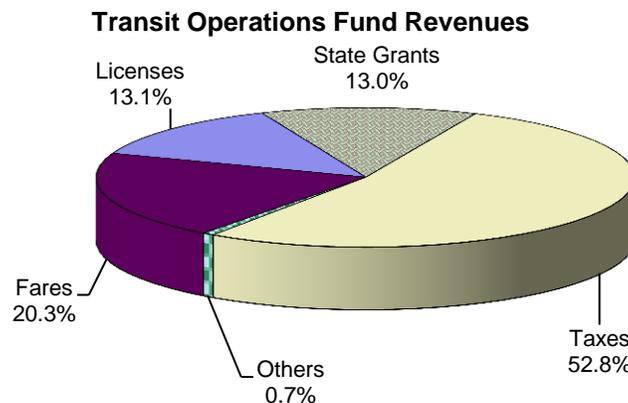
Capital Facility Fees are derived from charges to new development or facility expansion that result in a greater demand on the City's water supply, water treatment capacity, and wastewater treatment capacity. These fees are transferred to the Water and Sewer Construction Fund and are used to support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

First quarter revenues are 39% of budget and nearly \$157,000 greater than the same prior year period. This is the second year of a significant year-over-year increase, indicating a positive current trend in local development and growing utility customer base. Expenditures consist solely of transfers to the Water and Sewer Construction Fund, and as such, are currently on pace to exceed the \$2.8M projected in the budget.

Transit Operations Fund

First quarter results project year-end revenues and expenses to be at budget. Future quarters will further refine projections as the first quarter historically has relatively little transit fund activity. Ridership numbers will continue to be monitored, but are down 3.3% for fixed route, and up 5% for paratransit. The fixed route decrease is partially a good development because much is attributable to making routes more efficient with fewer transfers, hence the same riders are making fewer transfers.



The Transit Operations Fund receives a significant amount of support from property taxes (about 3.87 cents per \$100 on the tax rate). These account for 52.8% of budgeted fund revenues in the FY2014 adopted budget. With fare increases last approved in FY2004, charges to system riders return about 20.3% of the cost of operations. The Transit Operations Fund is not inclusive of federal transit grants, about \$5M for FY2014, which are also used to support the DATA transit system personnel and maintenance costs.

Solid Waste Disposal Fund

The Solid Waste fund is projected to receive slightly less revenue than originally budgeted for FY2014. This is due to lower revenues from the state solid waste disposal tax. The fund is projected to end under budget for expenditures. This is primarily attributable to lapsed salary and operational savings.

The Solid Waste Disposal Fund has collected \$160,400, or 10.9%, of the budgeted monthly solid waste fee revenue. Revenue is collected a month after billed. The Fund was budgeted to receive 41% of revenue through charges and other non-tax revenues. The remaining revenue is provided by the General Fund.

Stormwater 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 first quarter, the Stormwater Fund has received 42% of projected revenues. The fund is showing an anticipated surplus due to personnel and operating coming in under original budget for the year. This can be attributed to lapsed salary.

Parking Facilities Fund

At the end of the first quarter, the Parking Facilities Fund is projected to come in at budget for the fiscal year.

Ballpark Fund

The Ballpark Fund currently relies on the General Fund for 59% of the budgeted funding. The fund is projecting to be on target for year end. This is primarily due to personnel savings which will cover higher than anticipated utilities charges. Revenues are projected at target.

Performing Arts Center

At the end of the first quarter, the Performing Arts Center Fund is projected to come in at budget for the fiscal year.

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. Currently, fund expenditures are anticipated to end slightly below budget, due to lower capital improvement costs.

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 by zone for streets, open space and parks. Project obligation by current ordinance is also 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 association with Downtown Revitalization.

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.