



DATE: August 19, 2014

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 Fourth Quarter Financial Report**

### **Executive Summary**

The administration is pleased to present the Fourth Quarter Financial Report for FY 2013-14. 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 4th 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 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. All departments ended the year within budget. Departments spent \$5.6M less than budgeted, with personnel costs savings of \$3.3M and savings in operating and other costs of \$2.3M.

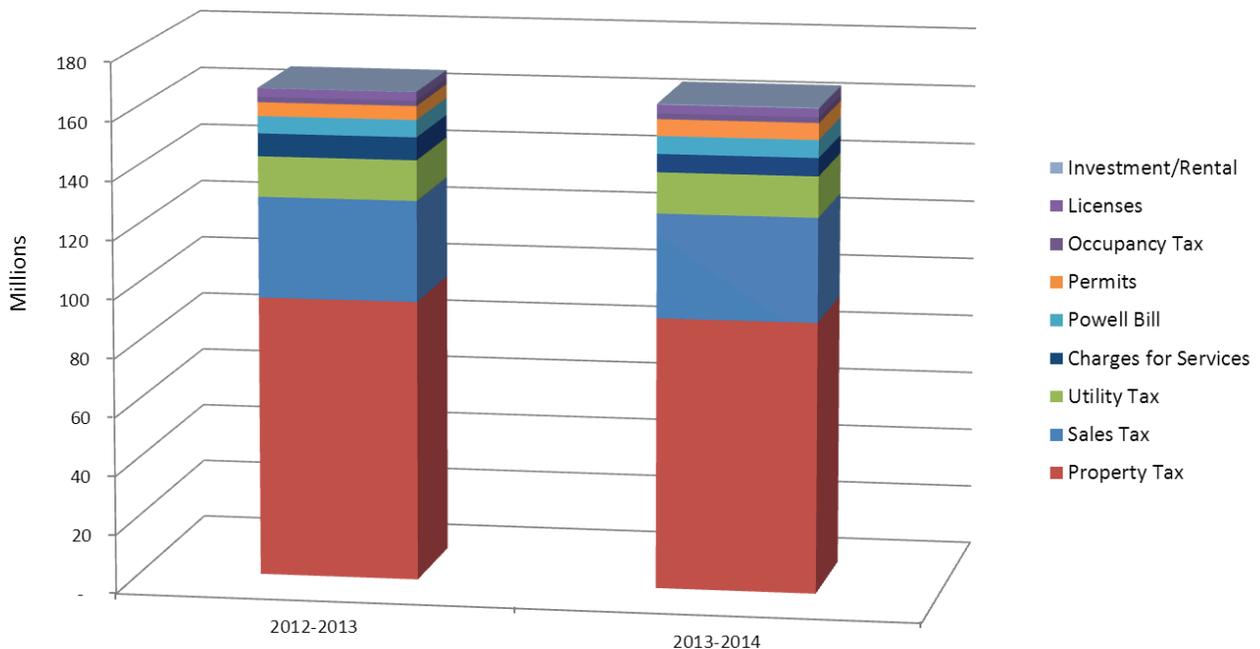
**Property Taxes:** Year-end collections were at \$139.8M compared to \$135.0M for the same period in FY2013 (positive variance of \$4.8M or 3.6%). The 2014 amount includes property tax in the General Fund, Debt Service Fund, Transit Fund, and Dedicated Housing Fund. The final overall collection rate was 99.2% compared to 98.8% at June 30, 2013. The collection rate for Real Property was 99.5% compared to 99.4% for fiscal year 2013. The collection rate for Motor Vehicles was 96.9% compared to 90.6% in fiscal year 2013. The County Tax Administrator will attend the September 4th Work Session to present the property tax collection report in more detail.

**Sales Taxes:** The final sales tax payment for FY2014 will not be received until September 2014. An estimate of \$3M is used for this report. Based on the \$3M estimate for the September payment, sales tax is estimated at \$35.5MM, which is up \$1.1M (3.1%) versus last year, and down \$1.8M (4.8%) versus budget. The actual sales tax number will be adjusted when the September payment is received.

**Other Revenues:** At approximately \$13.9M, utility franchise tax was up \$0.13M compared to last fiscal year (0.95%). License revenue was flat at \$2.9M in FY14. Permits were up \$1.0M (21%) from \$4.7M in FY13 to \$5.7M in FY14 due to continued rebound activity in the economy. Occupancy tax increased to \$1.9M in FY14 compared to \$1.8M FY13, or \$0.1M (8.2%). Powell Bill increased from \$5.9M in FY13 to \$6.1M FY14, up \$0.2M (2.85%). Charges for services decreased from \$7.8M in FY13 to \$6.2M in FY14, a decrease of \$1.6M (-21.0%). Other Intergovernmental revenue was down \$0.04M (-1.10%) from \$3.39M in FY13 to \$3.35M in FY14. Investment and rental income was up \$0.18M (159%) from \$0.11M in FY13 to \$0.29M in FY14.

The following chart shows a comparison of major revenues for Quarter 4, 2014 and 2013. As shown, total major revenues (excluding property tax) year-end for FY2014 are \$72,550,404 compared to \$71,499,148 for FY2013.

### General Fund Major Revenues



### General Fund Major Revenues Stoplight (Actual to Actual)

|                      |                                                                |
|----------------------|----------------------------------------------------------------|
| Property Tax         | Revenues have decreased 3.23% compared to Fourth Quarter FY13  |
| Sales Tax            | Revenues have increased 3.12% compared to Fourth Quarter FY13  |
| Utility Tax          | Revenues have increased 0.95% compared to Fourth Quarter FY13  |
| Licenses             | Revenues are flat compared to Fourth Quarter FY13              |
| Permits              | Revenues have increased 20.60% compared to Fourth Quarter FY13 |
| Occupancy Tax        | Revenues have increased 8.2% compared to Fourth Quarter FY13   |
| Powell Bill          | Revenues have increased 2.85% compared to Fourth Quarter FY13  |
| Charges for Services | Revenues have decreased 20.6% compared to Fourth Quarter FY13  |
| Investment/Rental    | Revenues have increased 159% compared to Fourth 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 fourth quarter of FY2014, results show that operating revenues were 104% of the budgeted operating revenue while operating expenses were 84% of the budgeted operating expenses. The increase in revenue is not principally due to consumption which was less than one percent over the prior year. Domestic consumption increased by almost 1.5% but irrigation decreased by 10%.

While billed consumption is up slightly, the positive variance in operating revenues is attributable to several factors which include the recent uptick in construction, increase in fees, and intensified revenue assurance efforts. Building permits in FY 13-14 were 15% higher than the prior year leading to increases in permits, inspections, and connection fees. Additionally, the increase of initiation fees from \$15 to \$50 per the FY 13-14 adopted budget has contributed to the growth in operating income over and above revenue attributed to the water and sewer rate increases. Customer and Billing Services corrected some billing inconsistencies which resulted in increased sewer revenue. These and other corrections resulted in one-time revenue from back billing as well as increased ongoing revenue.

Personal services ended the year at 95% of budget due to ongoing vacancies for hard-to-fill technical positions. Operating expenditures were 84% of budget due to favorable weather conditions which minimized the need for additional electricity and chemicals, along with other efforts to increase efficiency. At the end of the year, there was nearly \$4 million of excess revenues over expenditures which will be available for transfer to the capital improvements fund.

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.

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 from 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.

Year-end revenues are 135.6% of budget and ended the year \$997,600 over budget. This is the second year of a significant year-over-year increase (15%), 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, exceed the \$2.8M projected in the budget by over \$1M.

#### 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 80.7% of the adjusted budget. Lapse salary due to staff turnover and engineering level vacancies attribute to a 5% savings in personal services for the year. Stormwater revenue collections were received at 107.6% of budget, approximately a 4% increase over FY13.

With the operating savings, coupled with the overall revenues received during the year, there will be a substantial amount of surplus available for transfer to fund balance, approximately \$1.33M.

#### Parking Facilities Fund

The Parking Fund operated within budget expectations for FY 14. 102% of operating revenues were realized. The FY 2014 budget was slightly conservative as the effects of the new County deck and corresponding drop in usage of the surface lot behind the old courthouse and the Church Street garage effects were still largely unknown. Savings on the expenditure side were primarily due to a delay in hiring the new parking manager position, and some operating savings realized on parking efficiencies from the installation of parking equipment the previous year. The fund was budgeted to need a net transfer from reserves of \$276,000, but only needed \$91,131.

#### Solid Waste Disposal Fund

The Solid Waste Fund received less revenue than originally expected for FY 14. This is primarily attributable to a drop in tipping fees due to a major user switching to a different provider. The Solid Waste fee also generated 89% of its budgeted revenue due to adjustments as billing issues were addressed. The department had operating savings due to the lower volume of transfer station use because of the major user no longer using our transfer station, and other smaller contractual savings.

The Solid Waste Disposal Fund received 45% of revenue through charges and other non-tax revenue. The remaining revenue is provided by the General Fund.

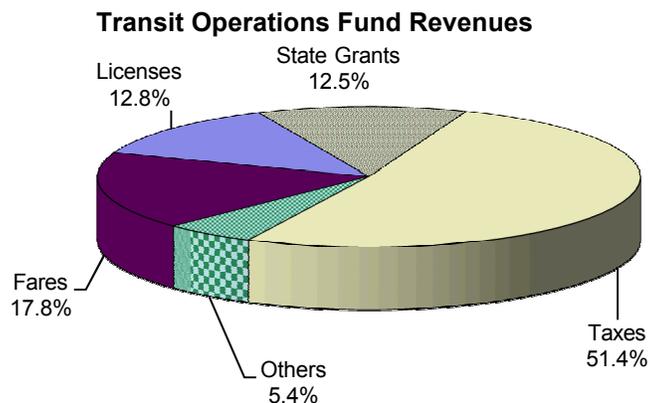
#### Ballpark Fund

The Ballpark Fund finished the year with a slight surplus as anticipated. Operational savings occurred when all contracts were closed and responsibilities for operating costs were assumed by the Durham Bulls effective in January. This year, the Ballpark Fund received 59% of revenue from the General Fund which supported a half year of operational costs as well as prior debt service obligations. Future costs associated with the Ballpark Fund are related to the payment of debt service from prior years, as well as, any costs associated with the renovations and upgrades completed in April as outlined in the new agreement.

#### Transit Operations Fund

The Transit Fund ended the year with a \$1.8M surplus which falls to fund balance helping to offset some of that fund's negative fund balance. There were several contributing factors to this. First, property tax receipts were \$240,000 higher than budgeted all due to motor vehicle taxes from the new tax and tag together method of collecting taxes. Second, and most significantly, there is a one-time windfall for FY 14 for vehicle fees as the new state collection went from a retroactive fee to a

pay in advance fee. This accounted for over \$900,000. Finally, over \$178,000 of additional State grant funds were received than were originally anticipated. This all helped compensate for the shortfall in operating revenues from fare box receipts as just under 96% of those budgeted revenues were realized. Operating expenditures for Paratransit and fixed route services were also significantly under budget as some savings were realized from efficient route planning from Designing Better Bus Service, and as some of the planned new services were implemented slightly later than originally planned.



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 51.4% of budgeted fund revenues in the FY2014 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 17.8% of the cost of operations. The Transit Operations Fund is not inclusive of federal transit grants, about \$4.6M for FY2014, which are also used to support the DATA transit system personnel and maintenance costs.

#### Durham Performing Arts Fund

A presentation on the Year End performance of the Durham Performing Arts Fund will be given by the Department of Community Development in late September or early October.

#### DPAC Maintenance and Repair Fund

End of Year performance of the DPAC Arts Fund will be given by the Department of Community Development in late September or early October.

### **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.