



DATE: February 19, 2015

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 2014-15 Second Quarter Financial Report**

Executive Summary

The administration is pleased to submit the Second Quarter Financial Report for FY 2014-15. This report is based on six months of financial information. The City Council receives each quarterly report at a regularly scheduled 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 second quarter of FY2015. It is currently projected that all departments will end the year within budget. The full year estimate indicates that departments will spend \$2.5M less than budgeted, primarily driven by savings in personnel costs (\$1.6M). The administration will continue to monitor revenue collections and expenditures and, if necessary, make targeted reductions as required to meet revenue projections.

Property Taxes: Collections are at \$71,603,378 compared to \$61,521,200 for the same period in FY2014 (positive variance of \$10,082,178 or 16.4%). It is projected that property taxes will come in just slightly below budget (-\$131K). The FY2015 budget projected a 99.0% collection rate based on the collections at the 3rd Quarter FY2014. The final collection at June 30, 2014 matched the projection at 99%. The 2014 tax bills have been mailed. Property tax payments were to be paid in full by January 5th, 2015.

Sales Taxes: Collections were \$12.9M, or 56% higher than the same period last year mostly due to a change in how Piped Natural Gas and Electric Utility Franchise tax revenues are captured. Refunds processed by the state tend to vary, but current projections expect the year to end with a positive variance for the year of about \$759K.

Other Revenues: Utility franchise taxes have been partially replaced with utility sales taxes (for Piped Natural Gas and Electric) and are down significantly by \$2,322,549 (-34.5%) to \$4,403,287 compared with \$6,725,836 for the same period last fiscal year because they are now captured under sales tax. Licenses are up by \$99,666 (3.7%) to \$2,811,636 compared with \$2,711,970 for the same period last fiscal year. Permits are down \$255,934 (-8.6%), to \$2,715,409 compared with \$2,971,343

for the same period last fiscal year. Occupancy tax collections are up \$116,608 (13.0%) to \$1,016,307 compared with \$899,699 for the same period last fiscal year. Powell Bill revenues are up slightly by \$102,291 (1.7%), to \$6,153,633 compared with \$6,051,342 for the same period last fiscal year. Charges for services are up by \$894,825 (36.0%) to \$3,377,966 compared with \$2,483,141 for the same period last fiscal year. Investment income has been moved to the Capital Improvement Plan (CIP) as a revenue source for projects.

The following chart shows a comparison of major revenues for Quarter 2 in 2014 and 2015. As shown, total major revenues year-to-date for FY2015 are \$105,095,359 compared to \$91,757,862 for FY2014, a positive difference of \$13,337,497 (14.5%).

Major Revenues

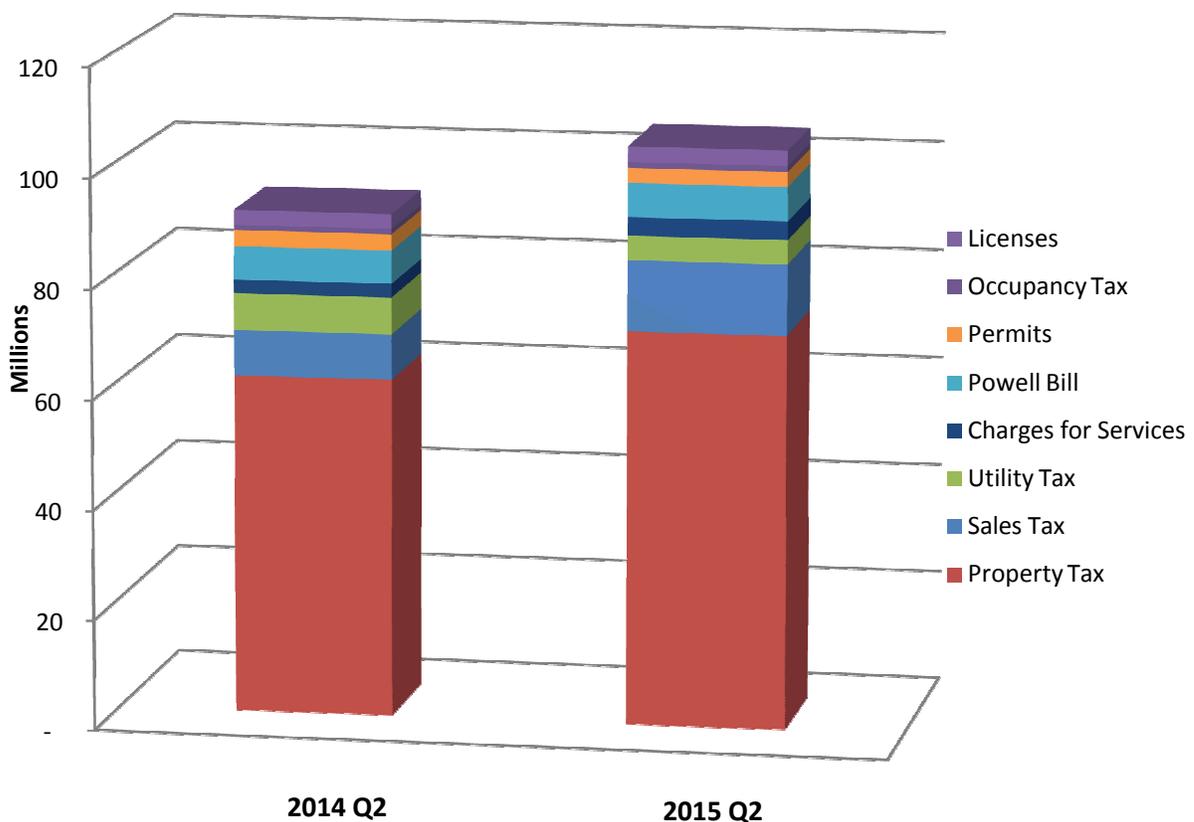


Exhibit 2: Enterprise Fund Budget-to-Actual

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 two quarters of FY2015, results show that operating revenues were 54.65% of the budgeted operating revenue while operating expenses were 41.54% of the budgeted operating expenses. This is slightly more favorable than the same time frame for FY2014 when operating revenues were at 53.19% while operating expenses were at 44.17%. While billed consumption for the first two quarters was not quite 1% higher than the same time during FY2014, revenue is up about 2% representing the annual rate increase.

During the past five years, 54% of the annual consumption occurred in the first half of the year, mostly attributable to irrigation and cooling tower usage during the warmer portion of the year. Therefore, revenue is anticipated to be on target at year end, barring any unusual weather patterns or other major issues. The total revenues for the first two quarters exceed the total expenses by \$1.7M. Usually there are larger surpluses at mid-year, but the entire year's \$17.5M of interfund transfers were posted in this quarter causing a significant reduction over results in prior years.

Operating expenditures are slightly less than anticipated at 41.5% of the total FY2015 budget, and are expected to show significant savings of nearly \$2.5M by June due primarily to savings in infrastructure maintenance, specialized supplies and materials, and chemicals. Operating expenditures are about \$650,000 below FY2014 as the AMR project was completed in early FY2015 and significant machinery was purchased in the first quarter of FY 2014. Electricity and maintenance costs are increased significantly over FY 2014, and chemical costs, which are often volatile, have remained fairly consistent with last year; however that may change dramatically by the end of the year. New processes scheduled to come online at the wastewater treatment facilities will create additional chemical usage. Total expenditures are 51.12% of budget, higher than in FY 2014 due to interdepartmental transfers made earlier in the current fiscal year.

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 FY2015-2020 Capital Improvement Program (CIP) budget, both water and wastewater capital needs are substantial with over \$21 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 \$21.5M transfer to the CIP in FY2014-2015 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

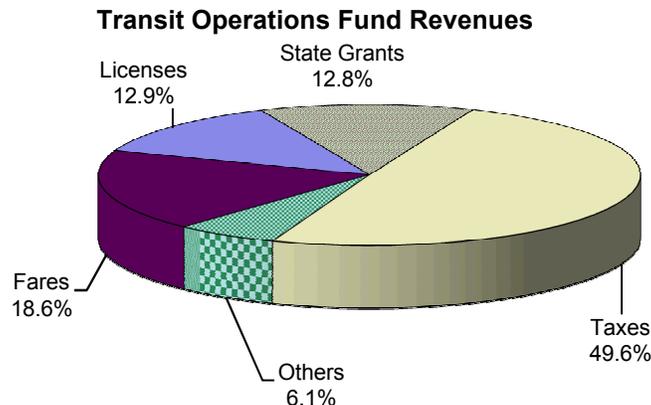
Capital Facility Fees are derived from charges to new development or facility expansion that result in a greater demand on the City's water supply, water treatment capacity, and wastewater treatment capacity. These fees are transferred to the Water and Sewer Construction Fund and are used to support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

Second quarter revenues are 52.5% of budget and about \$570,000 greater than the same prior year period. This is the third year of a significant year-over-year increase, indicating a positive current trend in local development and growing utility customer base.

Transit Operations Fund

Second quarter results project year-end revenues and expenses to be slightly below budget, with the fund showing a slight surplus resulting in not needing to use the entire budgeted transfer from fund balance. Despite the lower gas prices, ridership is up about 1.1% for the first two quarters this year over the first two quarters last year.



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 49.6% of budgeted fund revenues in the FY2014-15 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 18.6% of the cost of operations. The Transit Operations Fund is not inclusive of federal transit grants, about \$5M estimated for FY2014-15, 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 less revenue than originally budgeted for FY2015. This is due to lower revenues from mixed solid waste fees as customers continue to send less solid waste through the transfer station. Some of the operating revenue shortfall will likely be made up because of the timing of solid waste fee revenues. The fee was repealed with the FY 15 budget, but about \$128,000.00 was credited to FY 15. The budget for FY 15 for this was zero. These second quarter receipts make the year to date numbers appear better than they actually are for budgeted revenues, as we do not expect significant further receipts of the fee. The fund is projected to end under budget for expenditures which is primarily attributable to operational savings largely related to the reduction in mixed solid waste mentioned above.

The Solid Waste Disposal Fund was budgeted to receive 31.7% of revenue through charges and other non-tax revenues. The remaining revenue is provided by transfers from the General Fund and Debt Service 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 second quarter, the Stormwater Fund has received 68% of projected operating revenues. The fund is showing an anticipated surplus of approximately \$318K due to lapsed salary and savings in the household hazardous waste disposal contract.

Parking Facilities Fund

At the end of the second quarter, the Parking Facilities Fund is projected to come in with a small surplus (\$29,825) for the fiscal year.

Ballpark Fund

The Ballpark Fund currently relies on the Debt Service Fund for 84% of the budgeted funding. In January 2014, all operations became the responsibility of the Durham Bulls under the new agreement. The remaining items include debt service payments, the collection of interest and the revenue sharing established in the most recent agreement. All items are projected at target.

DPAC Fund

This fund was established for the Durham Performing Arts Center. Beginning with the current fiscal year the former DPAC maintenance and repair fund were combined into the DPAC Fund. Current fund expenditures and revenues are anticipated to end the year at budget.

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: Planned Debt Issuance

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

Exhibit 9: Donations Report

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