



DATE: May 21, 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 Third Quarter Financial Report

Executive Summary

The administration is pleased to present the Third Quarter Financial Report for FY 2014-15. This report is based on nine 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 May 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 third quarter of FY2015. It is currently projected that all departments will end the year within budget. The full year estimate indicates that expenses will be \$3.7M less than budgeted, primarily driven by savings in personal services (\$1.8M) and operating expenses (\$1.6M).

General Fund Property Taxes: Collections are at \$92,394,406 compared to \$88,995,988 for the same period in FY2014 (positive variance of \$3.4M or 3.8%). It is projected that property taxes will come in above budget (+\$429K). 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%. Property tax payments were to be paid in full by January 5th, 2015.

Sales Taxes: Collections were \$28.0M, or 59% 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 of about \$1.4M.

Other Revenues: Utility franchise taxes have been partially replaced with utility sales taxes (for Piped Natural Gas and Electric) and are down significantly by \$4,525,544 (-45.1%) to \$5,503,731 compared with \$10,029,275 for the same period last fiscal year because they are now captured under sales tax. Licenses are up by \$352,934 (+12.7%) to \$3,125,308 compared to \$2,772,374 for the same period last fiscal year. Permits are down \$156,900 (-3.8%), to \$3,902,826 compared to \$4,059,726 for the same period last fiscal year. At \$1,284,676 occupancy tax collections are down

by \$72,822 (-5.4%) compared to \$1,357,498 for the same period last fiscal year, and Powell Bill revenues are up slightly by \$102,291 (+1.7%), \$6,153,633 compared to \$6,051,342 for the same period last fiscal year. Charges for services are up by \$1,035,890 (+24.2%) to \$5,320,906 compared to \$4,285,016 for the same period last fiscal year. Finally, investment and rental income is down by \$34,407 (-20.0%), \$137,995 compared to \$172,402 for the same period last fiscal year.

The following chart shows a comparison of General Fund major revenues for Quarter 3 in 2014 and 2015. As shown, total major revenues year-to-date for FY2015 are \$145,871,780 compared to \$135,351,354 for FY2014, a positive difference of \$10,520,426 (+7.8%).

General Fund Major Revenues

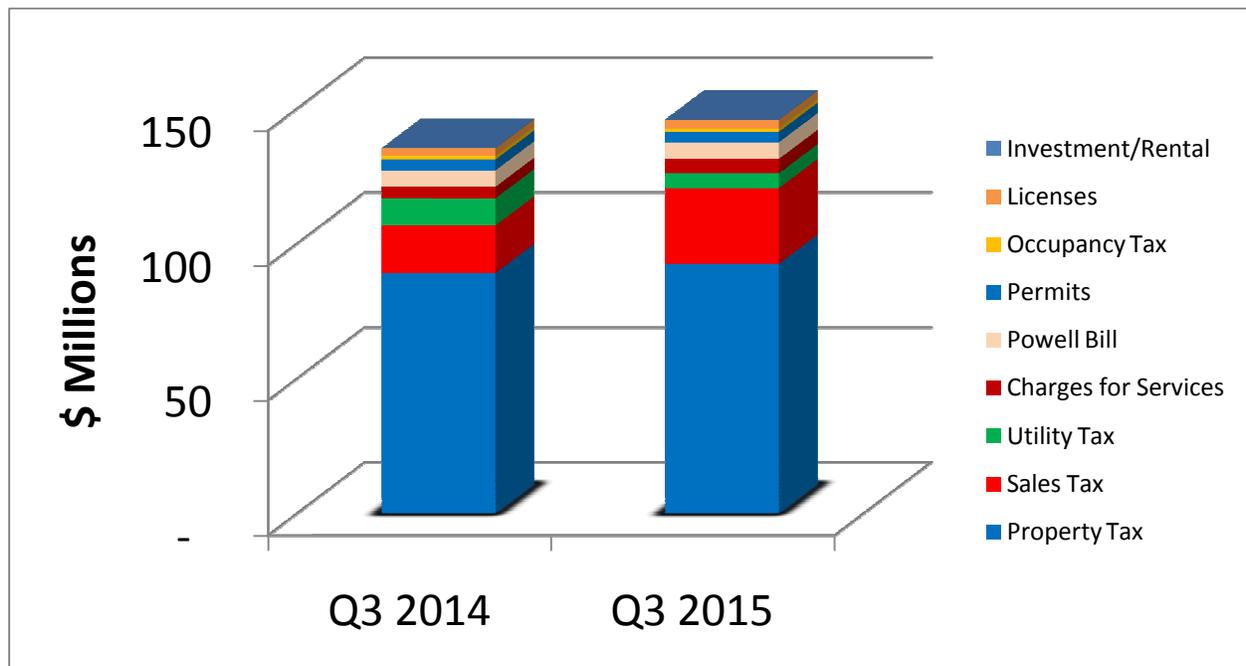


Exhibit 2: Enterprise Fund Budget-to-Actual

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 three quarters of FY2015, results show that operating revenues were 79.23% of the budgeted operating revenue while operating expenses were 57.96% of the budgeted operating expenses. This varies slightly from the same time frame for FY2014 when operating revenues were at 76.98% while operating expenses were at 59.43%. While billed consumption for the first three quarters was 1.65% higher than the same time during FY2014, revenue is up about 2.8% which is primarily attributable to the annual rate increase.

For the past five years, 76% of annual consumption occurred in the first nine months of the year, mostly due to irrigation and cooling tower usage during the warmer portion of the year. Therefore, revenue is anticipated to be on target or slightly over budget at year end, barring any unusual weather patterns or other major issues.

The total revenues for the first three quarters exceed the total expenses by \$13.6M. Approximately \$5M of this favorable variance is caused by the timing of debt service payments due the end of the year and another \$2M of indirect expenditures allocable to this quarter are not included in these year-to-date figures. The balance of the excess is attributable to higher than budgeted revenues and expenditure levels below the anticipated 75% at the end of the third quarter.

Total expenditures are slightly less than anticipated at 57.03% of the total FY2015 budget, but are expected to be close to budget by June due to equipment purchases and services planned during the next month. Operating expenditures are about \$380,000 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 increased chemical costs. Total expenditures are 57.03% of budget, lower than in FY 2014 due to debt service and interdepartmental transfers made earlier in the prior 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.

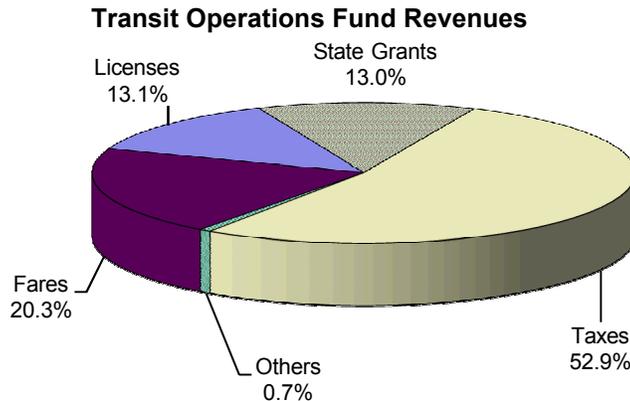
Capital Facility Fees do not count as current revenues in the computation of revenue bond covenant debt service coverage. Thus, any increase in these fees will help provide for future capital needs, but not reduce any need for consumption and service charge fee increases related to revenue bond debt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

Third quarter revenues are 69.24% of budget and about \$350,000 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. Expenditures consist solely of

transfers to the Water and Sewer Construction Fund, and as such, are currently on pace to exceed the \$7.9M projected in the budget.

Transit Operations Fund

Third quarter results project year-end revenues and expenses to be below budget, with the fund showing a surplus resulting in not needing to use the budget transfer from fund balance. Ridership numbers will continue to be monitored, and gas prices have come down from record highs.



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 FY2015 adopted budget. State grants are another large funding source for the Transit Operations Fund. With fare 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 for FY2014-15, which are also used to support the Durham Area Transit Authority (DATA) system personnel and maintenance costs.

Solid Waste Disposal Fund

The Solid Waste Disposal 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. 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,K was credited to FY 15. The budget for FY 15 for this was zero. These third 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 third quarter, the Stormwater Fund has received 86.8% of projected revenues. The fund is showing an anticipated surplus of approximately \$894K due to lapsed salary and savings in the household hazardous waste disposal contract.

Parking Facilities Fund

At the end of the third quarter, the Parking Facilities Fund is projected to come in with a surplus of \$192,797 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. The fund is projecting to be on target for year end.

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. Fund revenue is 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.

Exhibit 10: CIP Stoplight Report

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