



DATE: August 18, 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 Fourth Quarter Financial Report**

### **Executive Summary**

The administration is pleased to present the Fourth Quarter Financial Report for FY 2014-15. 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 10th 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 FY2015. All departments ended the year within budget. Departments spent \$5.7M less than budgeted, with personnel costs savings of \$2.6M and savings in operating and other costs of \$3.1M.

**General Fund Property Taxes:** Year-end collections were at \$148.2 for all funds compared to \$140.3M for the same period in FY2014 (positive variance of \$7.95M or 5.7%). The 2015 amount includes property tax in the General Fund, Debt Service Fund, Transit Fund and Dedicated Housing Fund. General Fund property taxes were at \$95.4M, up \$3.1M (3.4%) from FY 2014. The final overall collection rate was 99.61% compared to 99.23% at June 30, 2014. The collection rate for Real Property was 99.57% compared to 99.47% for fiscal year 2014. The collection rate for Motor Vehicles was 99.98% compared to 96.95% in fiscal year 2014. The County Tax Administrator will attend the September 10th Work Session to present the property tax collection report in more detail.

**Sales Taxes:** The City will receive the final sales tax payment for FY2015 and the fourth quarter sales tax payment on electricity and natural gas in September 2015. An estimate of \$3M is used for both payments in this report. Based on the total \$6M estimate for the September monthly distribution and utility sales tax, sales tax is estimated at \$55.1M, which is up \$19.6M (49.7%) versus last year, and up \$7M (14.6%) versus budget. The actual sales tax number will be adjusted when the September payment is received. Note that a change was made by the State in how Piped Natural

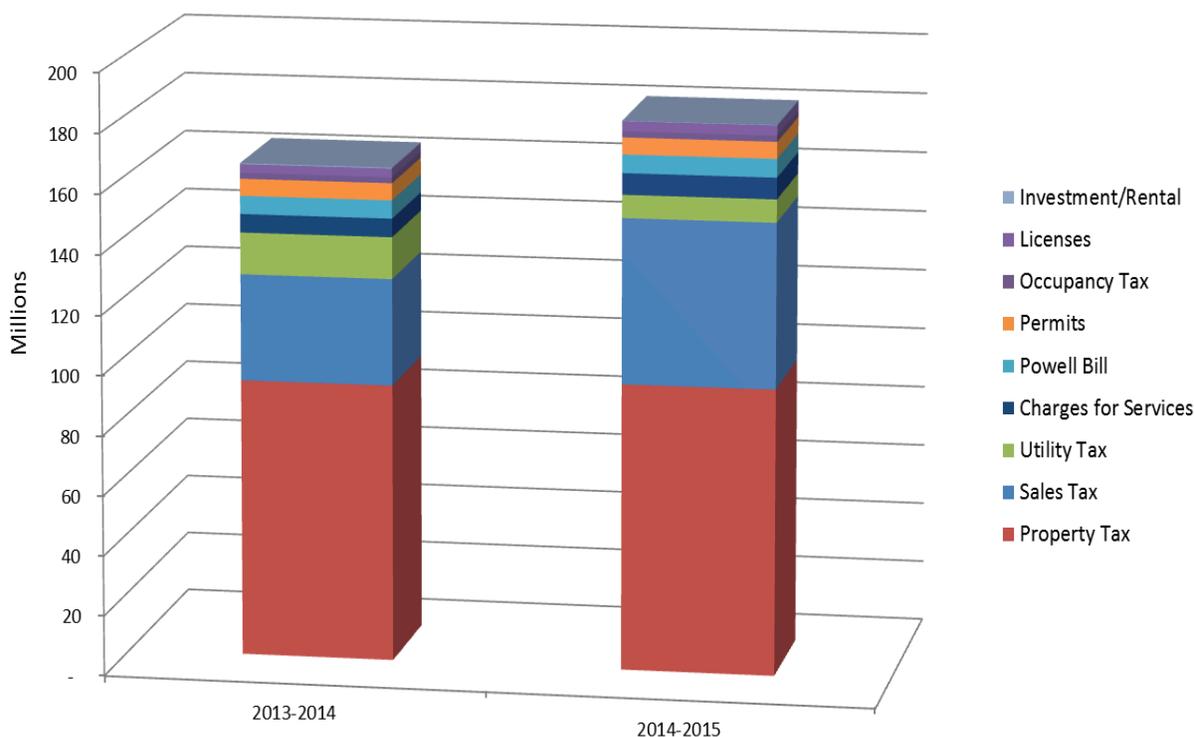
Gas and Electric Utility Franchise tax revenues are captured (now captured under sales tax). Of the \$55.1M in sales tax revenue, \$14M is the result of sales tax on gas and electric utility.

**Other Revenues:** Utility franchise taxes have been partially replaced with utility taxes for Piped Natural Gas and Electric, and are now captured under sales tax.

At approximately \$7.7M, utility was down \$6.2M compared to last fiscal year (-44.8%). License revenue increased by \$0.4M (13.9%) to \$3.4M in FY15. Permits were down \$0.09M (-1.5%) from \$5.7M in FY14 to \$5.61M in FY15. Occupancy tax increased to \$2M in FY15 compared to \$1.91M FY14, or \$0.09M (4.8%). Powell Bill increased from \$6.05M in FY14 to \$6.15M FY15, up \$0.1M (1.7%). Charges for services increased from \$6.2M in FY14 to \$7.1M in FY15, an increase of \$0.9M (15.6%). Other Intergovernmental revenue was up \$0.17M (5.1%) from \$3.35M in FY14 to \$3.52M in FY14. Investment and rental income was down \$0.142M (-49.7%) from \$0.286M in FY14 to \$0.144M in FY15.

The following chart shows a comparison of major revenues for Quarter 4, 2015 and 2014. As shown, total major revenues (excluding property tax) year-end for FY2015 are \$87,204,708 compared to \$72,550,404 for FY2014.

### 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 fourth quarter of FY2015, results show that operating revenues were 105% of the budgeted operating revenue while operating expenses were 82% of the budgeted operating expenses. As in the prior fiscal year, the increase in revenue is principally due to overall 1% higher consumption augmented by an approximate 3% rate increase. The slight increase in consumption over FY 13-14 is attributable to increased metered irrigation usage (8%) and the continuing healthy economy.

Miscellaneous income took a slight dip as sale of surplus equipment and cell tower lease payments diminished. Otherwise, revenue appeared to be consistent with the past year.

Personal services ended the year at 93% of budget due to ongoing vacancies for hard-to-fill technical positions, while operating expenditures were 85% of budget. Some savings were due to optimization and efficiency efforts while others are attributable to weather conditions which required the deferral of land application activities until drier weather. At the end of the year, there was nearly \$13.6 million surplus; this is due to the 5% increase in revenues as well as \$6M unspent in personnel and operations and the remaining \$7M in capital expenditure deferrals for projects which were delayed until late FY 15 or moved into FY 16.

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 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 \$5M transfer to the CIP from 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.

Year-end revenues are 99% of budget and ended the year approximately \$46,000 under budget but more than \$570,000 over the prior year. This illustrates that the growth trend of the past two years is continuing and that budget projections have been adjusted accordingly. Expenditures consist solely of transfers to the Water and Sewer Construction Fund, and as such, will equal the \$7.9M projected 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 86.1% of the adjusted budget, reflecting delayed implementation of several projects due a high vacancy rate. The Stormwater fund saved \$483,171 in personnel (8%) due to high vacancies, and \$210,286 (26.6%) in operating. Operating revenue collections exceeded budget by \$670,511 (4.5%) for the year..

The surplus in revenue collections and savings in expenditures will lead to a \$1.8M transfer to fund balance.

#### Parking Facilities Fund

The Parking Fund operated better than budget expectations for FY 15. 116.6% of operating revenues were realized. The FY 2015 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. Hourly, monthly and special event parking revenues all exceeded expectations in every garage and lot except Ninth Street. The expenditure side of the fund operated very close to budget. The fund was budgeted to need a net transfer from reserves of \$129,382, but instead was able to put \$362,309 back to fund balance.

#### Solid Waste Disposal Fund

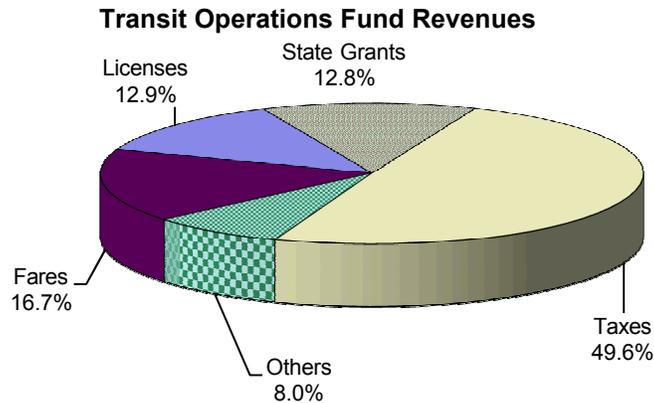
The Solid Waste Fund received less operating revenue than budgeted for FY 15, collecting 97.96%. The overall nearly \$128,000 shortfall is due to lower revenues from mixed solid waste fees as customers continue to send less solid waste through the transfer station (\$538,000), and the timing of landfill gas payments (\$95,000), offset by better than expected yard waste revenues (\$214,000), recycling revenues (\$96,000), scrap tire revenues (\$50,000) and timing of last year's solid waste fee collections (\$127,000). The department had significant operating savings due to fuel costs, the lower volume of transfer station use, and other smaller contractual savings. Overall, the fund is returning about \$724,168 to fund balance.

#### Ballpark Fund

The Ballpark Fund relies heavily on Debt Service Fund and General Fund. This support is currently 87.5% of the budgeted funding. As expected, the fund finished the year with a small surplus, returning \$46,510 to fund balance. This surplus is largely attributed to the additional \$43,863 received from operating revenues associated with the Ball Park agreement.

#### Transit Operations Fund

The Transit Fund ended the year transferring \$954,057 back to fund balance. There were several contributing factors to this, primarily on the expense side. Fixed route services were significantly under budget as some of the planned new services were implemented slightly later than originally planned, and others were changed as further data became available. This had some offsetting effects on the revenue side as Triangle Transit did not need to transfer as much funding to cover new services, and fare receipts did not meet expectations. There were also significant fuel savings. Apparent savings in transfers to cover grant matches were just due to timing, and the \$118,082 balance there will be recommended to be re-appropriated through the carryover process.



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 16.7% 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.

#### Durham Performing Arts Fund

The Durham Performing Arts Fund transferred back \$1,401,410 to fund balance this year. The fund collected a \$300,000 (22.3%) surplus in operating revenues this year. Other revenue streams continue to perform strongly, with naming rights matching budget and ticket facility funds exceeding budget by \$115,216 (21.7%).

At the end of the fourth quarter, operating expenditures are 91.09% of the adjusted budget. The fund saved \$163,201 in operational costs, and did not realize \$449,315 in capital outlay expenses.

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.

#### **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: 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.