



DATE: November 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 2015-16 First Quarter Financial Report**

Executive Summary

The administration is pleased to present the First Quarter Financial Report for FY 2015-16. 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 19th work session. The report will also be published on the City's website at: <http://durhamnc.gov/Archive.aspx?AMID=39>.

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 FY2016. It is currently projected that all departments will end the year within budget. The full year estimate indicates that departments will spend \$870K less than budgeted, primarily driven by savings in personnel costs. We 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 \$10,883,713 compared to \$11,349,269 for the same period in FY2015 (negative variance of \$465,556 or 4.1%). It is projected that property taxes will come in just slightly below budget (-96K). The FY2016 budget projected a 99.0% collection rate based on the collections at the 3rd Quarter FY2015. The final collection at June 30, 2015 was 99.61%. The 2015 tax bills have been mailed. Property tax payments are to be paid in full by January 5th, 2016.

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 FY2016. An update will be provided during the presentation at the work session.

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

No payments for Sales Tax or Utility franchise taxes have been received in the first quarter of the year. Licenses are down by \$2,155,319 (-99.8%) from \$5,340 compared to \$2,160,659 for the same period last fiscal year. The reduction in license revenues is due to the elimination of Privilege License revenue; the City is only permitted to collect beer and wine revenue. Permits are up \$483,383 (5.7%), from \$1,839,143 compared to \$1,355,760 for the same period last fiscal year. The difference between the Permits category in this memo and exhibit 1 is due to combining License revenue with Permits in exhibit 1. Occupancy tax collections are significantly higher, up \$152,959 (30.1%) from \$661,064 compared to \$508,105 for the same period last fiscal year. Powell Bill revenues are flat, up by \$9,921 (0.3%), \$3,086,737 compared to \$3,076,816 for the same period last fiscal year. Charges for services are up by \$59,103 (3.3%) from \$1,874,207 compared to \$1,815,104 for the same period last fiscal year.

The following chart shows a comparison of major revenues for Quarter 1 in 2015 and 2016. As shown, total major revenues year-to-date for FY2016 are \$7,474,211 compared to \$12,201,694 for FY2015, a negative difference of \$4,727,483 (-38.7%).

Major Revenues

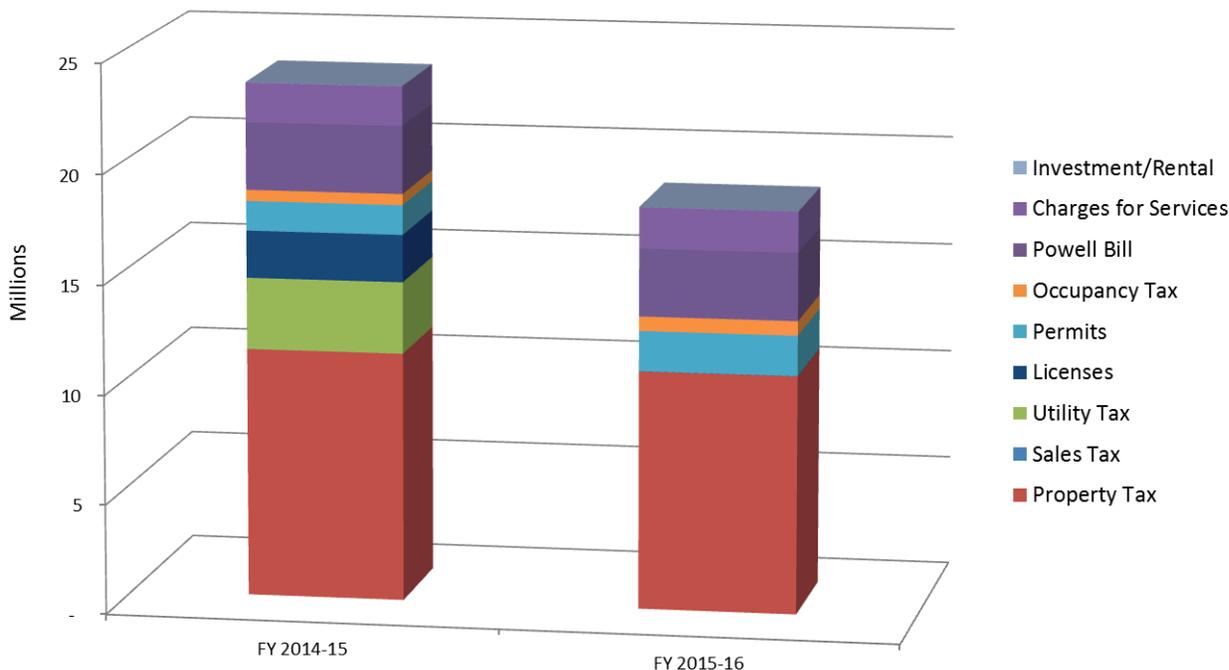


Exhibit 2: Enterprise Fund Budget-to-Actual

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 quarter of FY2016, results show that operating revenues were 30% of the budgeted operating revenue while operating expenses were 18.5% of the budgeted operating expenses. This is essentially identical to the ratios last year. Of note is that billed consumption for the first quarter was 2% higher for water and 28% higher for irrigation-only customers than the same time during

FY2015 likely due to the extended hot, dry weather conditions. This resulted in a revenue increase of \$1.5M over the prior year.

During the previous five years, average consumption for the first quarter is typically 29% of the annual total, primarily due to irrigation and cooling tower usage. At this time revenue is anticipated to be equal better than budget at year end, barring any additional unusual weather patterns. The total revenues for the quarter exceed the total expenses by \$16M; however, the first quarter surplus will be offset by end of the year of additional debt service payments of \$9.7M, indirect costs charges of \$6M, and transfer of \$19.7M to capital projects.

Operating expenditures are slightly less than anticipated at 18.5% of the total FY2016 budget, but are expected to be close to budget by June due to equipment and services anticipated to be delivered later in the year. Personal services are down slightly from FY 2015 due to vacancies, most of which are anticipated to be filled by the end of the second quarter. Operating expenditures are comparable to this same quarter in FY 2015. Total expenditures are 13% of budget due to debt service and interdepartmental transfers which will occur later in the 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 eight years have stabilized the water and sewer fund and therefore ensured compliance with revenue bond covenants. Rate increases in each of the past four years have been less than initially projected due to favorable developments with the Capital Improvement Program (CIP). The general economic condition slowing the construction industry resulted in bids for infrastructure projects coming in significantly lower than budgeted, and the staff has carefully reallocated funding for capital projects to defer where appropriate to responsibly minimize expenditures.

As evidenced by the FY2016-2021 Capital Improvement Program (CIP) budget, both water and wastewater capital needs are substantial with over \$56 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 \$19.65M transfer to the CIP in FY2015-2016 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.

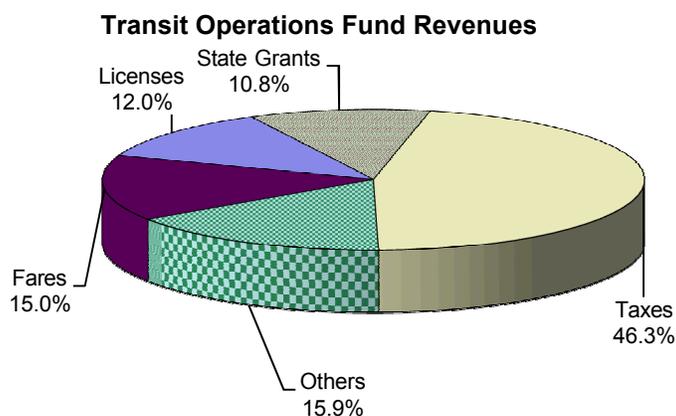
Capital Facility Fees do not count as current revenues in the computation of revenue bond covenant debt service coverage. Any increase in these fees will help provide for future capital needs, but not reduce any need for consumption and service charge fee increases related to revenue bond debt covenants.

First quarter revenues are 30% of budget and within 1.5% of revenues in the same prior year period continuing the positive trend over the past four years 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 meet or exceed the \$4.6M 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 essentially flat compared to the first quarter of the previous fiscal 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 about 46.3% of budgeted fund revenues in the FY2015-16 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 15% of the cost of operations. The Transit Operations Fund is not inclusive of federal transit grants, about \$8.3M estimated for FY2015-16, 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 FY2016. This is due to lower revenues from recycling as commodity prices have fallen, but is partially offset by a small increase in Mixed Solid Waste revenues.

The fund is projected to end under budget for expenditures which is primarily attributable to operational savings in contractual services. Overall, the fund is projected to end the year near budget.

The Solid Waste Disposal Fund was budgeted to receive 30.7% of revenue through charges and other non-tax revenues. The remaining revenue is provided by allocating 5.85 cents of the tax rate to the 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 39.68% of projected operating revenues. The fund anticipates transferring \$837,617 to fund balance at year end due to strong revenue performance and savings in personnel costs.

Parking Facilities Fund

At the end of the first quarter, the Parking Facilities Fund is projected to come in better than budget for the fiscal year. Monthly and hourly parking revenues are exceeding expectations, while minor overages in operating expenses are projected. Overall, the fund is expected to transfer about \$250,000 more to fund balance than originally budgeted.

Ballpark Fund

The Ballpark Fund currently relies on the Debt Service Fund for 85% 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.

Durham Performing Arts Center 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.

Exhibit 10: CIP Stoplight Report

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