



DATE: May 19, 2016

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 Third Quarter Financial Report**

Executive Summary

The administration is pleased to present the Third Quarter Financial Report for FY 2015-16. 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 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 third quarter of FY2016. It is currently projected that all departments will end the year within budget. The full year estimate indicates that operating expenses will be less than budget by \$1.9M and personal services will be less than budget by \$0.4M.

General Fund Property Taxes: It is projected that property taxes will come in essentially flat to budget (-\$183K). There was an accounting change that distributed property taxes directly to the Solid Waste Fund this year. Taxes were previously being transferred from the General Fund; now taxes are being deposited directly to the Solid Waste Fund.

Sales Taxes: This year, sales taxes were budgeted to be 5.9% higher than last year's budget. Current projections expect the year to end with a positive variance of about \$6.0M versus 2016 budget, or 18.4% higher than last year's budget. The budget was set conservatively due to uncertainties last spring with changes made by the State. This is the first full year the City is receiving the full impact of the General Assembly's sales tax changes.

Other Revenues: Other Revenues are all essentially flat to budget, except Utility Franchise Taxes which are projected to end the year \$333,978 unfavorable to budget (-7.6%). The projection is based on actual receipts, and the City has not collected as much as anticipated. Licenses are down due to the elimination of Business Privilege License Revenue. Permits are down due to Inspection Fees being moved to a new Special Revenue Fund this year.

The following chart shows a comparison of General Fund major revenues for Quarter 3 in 2015 and 2016. As shown, total major revenues year-to-date for FY2016 are \$133,065,691 compared to \$145,871,780 for FY2015, a negative difference of \$12,806,089 (-8.8%). However, the primary reasons for the variance are the previously mentioned accounting changes, which were all planned and reflected in the budget: property taxes being distributed directly to the Solid Waste Fund; the creation of the Special Revenue Fund for Inspection Fees; and, the elimination of the Business Privilege License Revenue.

General Fund Major Revenues

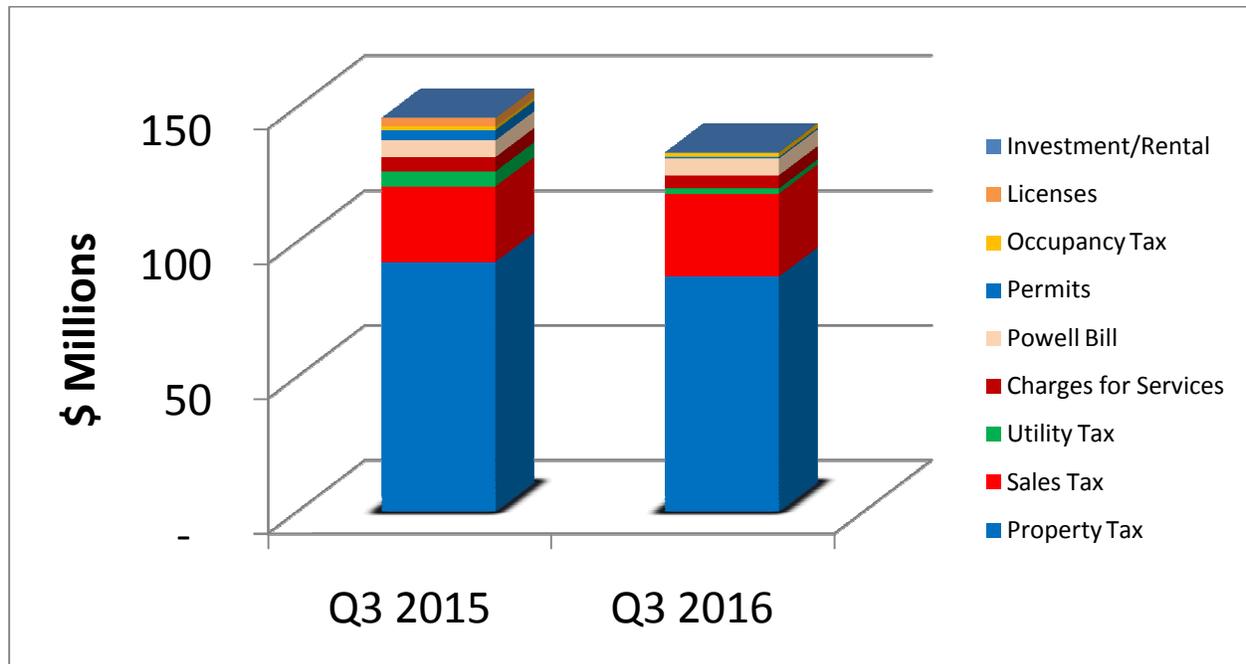


Exhibit 2: Enterprise Fund Budget-to-Actual

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 third quarter of FY2016, results show that operating revenues were 79% of the budgeted operating revenue while operating expenses were 60% of the budgeted operating expenses. This is essentially identical to the ratios last year. Of note is that billed consumption for the nine months ending March 31, 2016 was 2% higher for water and 25% higher for irrigation-only customers than the same time during the prior year likely due to the extended hot, dry weather conditions through October. In addition, the number of customers billed increased over 2%. This resulted in a revenue increase of \$2.8M over the prior year.

During the previous five years, average consumption for the first through third quarter is typically 75.35% of the annual total, primarily due to irrigation and cooling tower usage. At this time revenue is anticipated to be over budget at year end. Currently, most of the state, including the Triangle, is experiencing abnormally dry conditions. If this trend continues, irrigation usage may increase through the end of the fiscal year. The total revenues for the quarter exceed the total expenses by \$12.6M; however, the third quarter surplus will be offset by the end of the year by additional debt service payments and indirect costs charges. Any remaining surplus will be transferred to capital projects.

Operating expenditures are slightly less than anticipated at 59.8% 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 up slightly from FY 2015 due to fewer vacancies. While the percentage of budget to actual for operating expenditures is comparable to this same quarter in FY 2015, overall expenditures are up, primarily due to increases for chemicals, infrastructure maintenance, and bank processing fees. In addition, the purchase of bulk water is new to the budget this year. Total expenditures are 64% of budget

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 \$19.5M 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

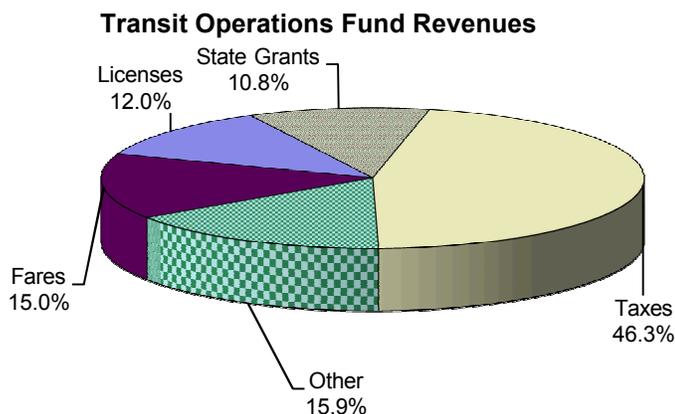
Capital Facility Fees are derived from charges to new development or facility expansion that result in a greater demand on the City's water supply, water treatment capacity, and wastewater treatment capacity. These fees are transferred to the Water and Sewer Construction Fund and are used to support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

Third quarter revenues are 74.5% of budget and about 10% more than 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 essentially meet the \$4.5M projected in the budget.

Transit Operations Fund

Third quarter results project year-end revenues and expenses to be below budget. Overall, the fund is expected to finish the year balanced. Ridership numbers will continue to be monitored, but are essentially slight down (3%) year to date compared to the previous fiscal year. Although revenues are lower than anticipated, savings in fuel mostly offset those revenue shortfalls.



The Transit Operations Fund receives a significant amount of support from property taxes (3.87 cents per \$100 on the tax rate). These account for 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 fare 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 for FY2015-16, which are also used to support the GO Durham system personnel and maintenance costs.

Solid Waste Disposal Fund

The Solid Waste Disposal Fund is projected to receive more revenue than originally budgeted for FY2016. This is due to a small increase in Mixed Solid Waste revenues. Overall, the fund is projected to end the year with a small surplus.

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 third quarter, the Stormwater Fund has received 87.4% of projected revenues. The fund anticipates transferring \$1,352,504 to fund balance at year end due to strong revenue performance and savings in operational costs.

Parking Facilities Fund

At the end of the third 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. Overall, the fund is expected to transfer about \$440,000 more to fund balance than 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 City remains responsible for any capital expenses in excess of \$200,000. This year approximately \$43K will be paid for expenses that exceeded the capital/repair expense cap in 2015. 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.

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.