



CITY OF DURHAM | NORTH CAROLINA

DATE: August 16, 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 Fourth Quarter Financial Report**

Executive Summary

The administration is pleased to present the Fourth Quarter Financial Report for FY 2015-16. 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 8th 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 fourth quarter of FY2016. All departments ended the year within budget. Departments spent \$7.5M less than budgeted, with personnel costs savings of \$2.4M and savings in operating and other costs of \$5.1M.

Property Taxes: Year-end collections were at \$152M for all funds compared to \$148.2M for the same period in FY2015 (positive variance of \$3.8M or 2.6%). The 2016 amount includes property tax in the General Fund, Debt Service Fund, Transit Fund and Dedicated Housing Fund. General Fund property taxes were at \$89.8M, down \$5.7M (-5.9%) from FY 2015. The final overall collection rate was 99.70% compared to 99.61% at June 30, 2015. The collection rate for Real Property was 99.67% compared to 99.57% for fiscal year 2015. The collection rate for Motor Vehicles was 99.99% compared to 99.98% in fiscal year 2015.

Sales Taxes: The City will receive the final sales tax payment for FY2016 and the fourth quarter sales tax payment on electricity and natural gas in September 2016. Based on the September estimate, the City expects to end the year at \$56.9M, an increase of \$6M from what was budgeted. The actual sales tax number will be adjusted when the September payment is received.

Other Revenues: At approximately \$4.1M, utility franchise tax was down \$2.5M compared to last fiscal year (-38.3%). This is associated with the change in utility franchise tax payments, which resulted in an extra payment in FY15. Permits were down \$-4.5M (-80.7%) from \$5.6M in FY15 to \$1.1M in FY16. This decrease is largely associated with the creation of the Inspections Fund.

Occupancy tax increased to \$2.39M in FY16 compared to \$2.0M FY15, or \$0.385M (19.3%). Powell Bill increased from \$6.15M in FY15 to \$6.17M FY16, up \$0.019M (0.3%). Charges for services decreased from \$7.1M in FY15 to \$6.17M in FY16, a decrease of \$0.341M (-4.8%). Other Intergovernmental revenue was down \$0.36M (-10.3%) from \$3.52M in FY15 to \$3.15M in FY16. Investment and rental income was down \$0.03M (-21.4%) from \$0.143M in FY15 to \$0.113M in FY16.

The following chart shows a comparison of major revenues for Quarter 4, 2016 and 2015. As shown, total major revenues (excluding property tax) year-end for FY2016 are \$77,523,470 compared to \$87,204,708 for FY2015.

General Fund Major Revenues

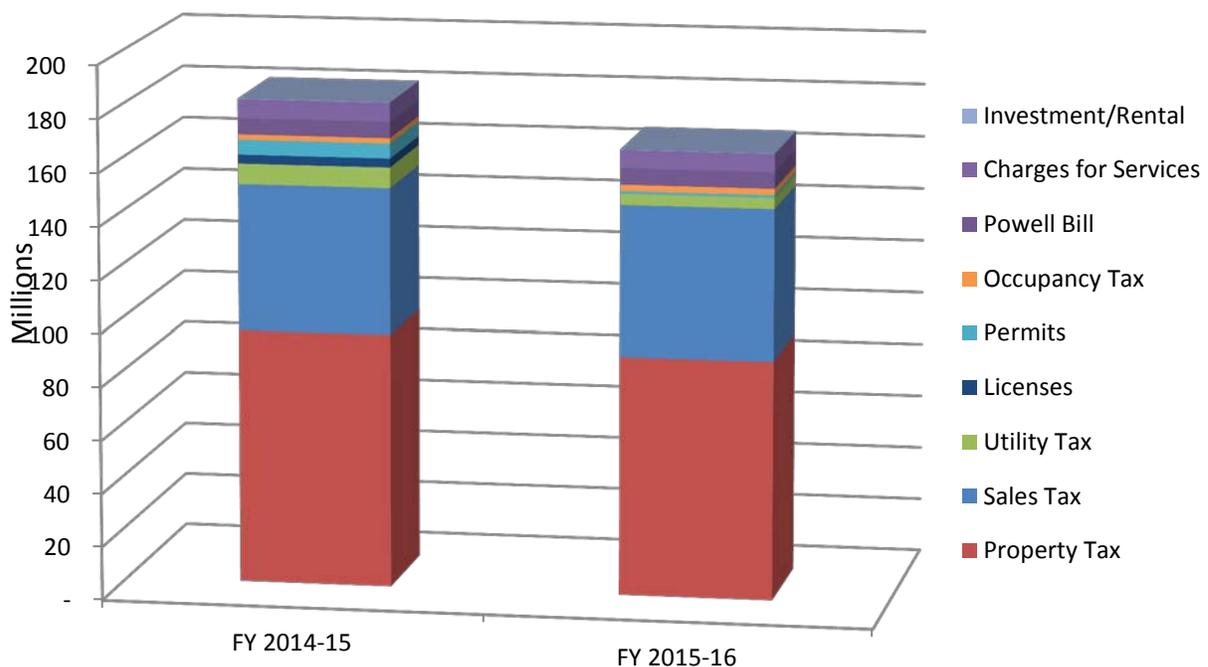


Exhibit 2: Enterprise Fund Budget-to-Actual

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 FY2016, results show that operating revenues were 104% of the budgeted operating revenue while operating expenses were 83% of the budgeted operating expenses. As in the prior two fiscal years, the increase in revenue is principally due to overall 1% higher consumption augmented by an approximate 3% rate increase. The 1.3% increase in consumption over FY 14-15 is attributable to 1.5% growth in number of accounts plus increased metered irrigation usage (20% inside and 35% outside) assumed to be a result of the continuing healthy economy. In addition, higher than estimated new construction resulted in an increase of 22% in permit revenue over the prior year.

Miscellaneous income was at 233% ending the year with \$1.7M in additional revenue. The increase was due to a combination of additional income including approximately \$840,000 from reimbursement of Jordan Lake Partnership activities, \$130,000 from additional lease of air towers,

sale of surplus equipment of nearly \$100,000, and ancillary revenue from new development and programs including backflow inspections, engineering inspections, and service initiation fees.

Personal services ended the year at 92% of budget due to ongoing vacancies for high-turnover positions and hard-to-fill technical roles, while operating expenditures were 83% of budget. Some savings were realized due to optimization and efficiency efforts while others are attributable to weather conditions which required the deferral of land application activities until drier weather. Less than anticipated electricity increases, toilet rebates, and sewage treatment contracted to Durham County also contributed to expenditures coming in under budget. At the end of the year, there was \$13.8 million surplus; this is due to the 5% increase in revenues as well as \$6.3M unspent in personnel and operations.

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 FY2017-2022 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 from 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

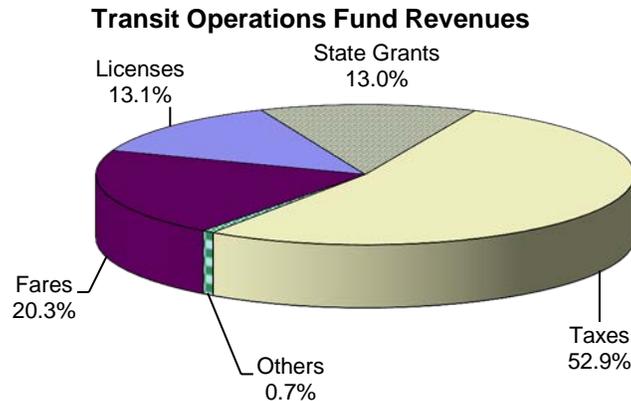
Capital Facility Fees are derived from charges to new development or facility expansion that result in a greater demand on the City's water supply, water treatment capacity, and wastewater treatment capacity. These fees are transferred to the Water and Sewer Construction Fund and are used to support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

Annual revenues are slightly over budget 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, currently exceed the \$4.6M projected in the budget by \$139K.

Transit Operations Fund

The Transit Fund ended the year transferring \$1,434,321 back to fund balance. Fixed route services revenue is down primarily due to ridership decline. There were also significant fuel savings.



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 52.9% of budgeted fund revenues in the FY2016 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 Durham Area Transit Authority (DATA) system personnel and maintenance costs.

Solid Waste Disposal Fund

The Solid Waste Disposal Fund received more operating revenues than budgeted for FY16, collecting an extra \$236K over what was anticipated. This increase is due primarily to higher than expected transfer station tipping fee revenues and scrap tire revenues. There was also a shortfall in recycling revenues due to commodity prices that plummeted this past year; only about \$170K out of the budgeted \$293K was collected. The Solid Waste Disposal Fund had significant operating savings due mainly to fuel costs and contractual savings. Overall, the fund is returning about \$1.2M to fund balance.

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 106% of the adjusted budget, reflecting new billing and collections software having been implemented during the year, resulting in higher than anticipated collection rates.. The Stormwater fund saved \$251K in personnel due to vacancies, and \$616K in operating due to some project slow down caused by the vacancies.

The surplus in revenue collections and savings in expenditures lead to a \$2.5M transfer to fund balance.

Parking Facilities Fund

The Parking Fund operated better than budget expectations for FY 16. 123% of operating revenues were realized. Increased revenues were a result of reaching capacity with monthly parking permits, especially in the Durham Centre Garage. Also, increases were realized in hourly parking and special event parking revenues. The expenditure side of the fund operated very close to budget. The

\$811 reduction in debt service for the fund was the result of the City having sold the North Parking Deck.

Ballpark Fund

The Ballpark Fund relies heavily on the Debt Service Fund and the General Fund. This support is currently 85% of total budgeted funding. The fund finished the year with a small surplus, returning \$55,859 to fund balance. This is primarily due to higher than anticipated operating revenues.

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.