



Legislation Text

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FY 2020 Financial Results and Trends and FY 2021 Q2 Financial Update.

Staff:

Amy Oland, Director

Department:

Business Management

Overview: The Town's Comprehensive Annual Financial Report (CAFR) for the period ended June 30, 2020 is available on the [Town's website <https://www.townofchapelhill.org/government/departments-services/business-management/financial-statements>](https://www.townofchapelhill.org/government/departments-services/business-management/financial-statements) and has been distributed to third-party entities (bond rating agencies, banks, government institutions) who request this updated data annually from the Town. The CAFR is a record of the Town's financial performance for that fiscal year and a snapshot of the Town's fiscal condition as of June 30, 2020. The information in the Town's CAFR provides important indicators of the Town's financial health that are used by a variety of outside stakeholders, including investors, bond rating agencies, state and federal agencies.



Recommendation(s):

That the Council receive this report on the Town's CAFR for FY 2020 and financial update presentation.

FY 2019-20 CAFR

When independent auditors review the Town's financials, they issue one of the following opinions to summarize their findings: unqualified, qualified, adverse, or going concern. As in previous years, the Town has received an unqualified or "clean" opinion from the independent auditors attesting to the fact that the Town's financial statements fairly represent the Town's financial condition in all material respects. In addition, no reportable conditions or material weaknesses in the Town's internal controls or use of federal and state grants were reported in the Single Audit Section for the period.

The CAFR Document

The CAFR has four major sections, each with a specific purpose as described below:

- 1. Introduction Section:** This section contains the transmittal letter from the Manager and the Finance Officer, the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting, Organizational Chart and a list of the members of the governing body.
- 2. Financial Section**
 - a. Auditor's opinion on the Town's Financial Statements
 - b. Manager's Discussion and Analysis (MD&A): Includes a discussion of the structure of the Town's Financial Statements, highlights and analysis of the various Town funds
 - c. Government Wide-Statements: These statements aggregate the activities, assets and liabilities of all funds and show enterprise-wide financial position and results
 - d. Fund Financial Statements: Individual financial statements for all of the Town's major funds. The major funds are the General Fund, Debt Service Fund, Capital Projects Ordinance Fund, Transit Fund, Parking Facilities Fund, Housing Operating Fund and Stormwater Management Fund.
 - e. Notes to the Financial Statements: Additional information essential to the full

- understanding of the government-wide and fund financial statements
- f. Required Supplementary Information: Includes required information regarding the Town's progress in funding its obligations to provide separation allowance for law enforcement officers and other post-employment benefits (OPEB)
 - g. Combining Statements: Facilitate comparison and present information at the individual fund level demonstrating how they are combined to accumulate totals used in the fund financial statements.
 - h. Budgetary Statements: The budgetary statements demonstrate compliance with the budget ordinance and are presented using the same format, language and classifications.
 - i. Other Supplementary Information: Schedule of taxes receivable and the current tax levy.

3. Statistical Section: Presents multi-year schedules that help to identify trends and provide indicators of the Town's overall financial health. These schedules include financial trends, revenue capacity, debt capacity, demographic, economic and operating information.

4. Single Audit Section: This section contains the auditor's reports on internal controls and compliance for major federal and state grant programs and a schedule of expenditures for federal and state awards.

Results for FY 2020

Governmental Funds - This fund type uses the current financial resource management focus and the modified accrual basis of accounting (see CAFR page 42 for information on the basis of accounting for Town funds).

- General Fund - Overall fund balance is up \$1,075,749 and undesignated fund balance is up \$1,445,314. Undesignated fund balance as of June 30, 2020 was 23.7% of expenditures, which is \$1,085,245 more than the 22% undesignated fund balance target. The reason fund balance is above the designated target is the result of strong revenues from the first three quarters along with a hiring freeze and hold on large purchases in the fourth quarter in response to the COVID-19 pandemic. Fund balance has been relatively stable over the past eight years, averaging about 22.8%. The exception to this trend was FY 2017, where the reduction in fund balance was due to several one-time transactions, including the purchase of the American Legion Property, the establishment of the Affordable Housing Development Reserve and the creation of the irrevocable trust for the Town's OPEB liability.
- Debt Management Fund - For the year, revenues and transfers into the Debt Fund exceeded expenditures by \$2,070,853, adding to the total fund balance, which finished the year at \$9,565,682. Due to the accounting for future debt obligations, the fund shows a negative unassigned fund balance, signifying that future debt obligations exceed currently available funds.
- Capital Project Ordinance Fund - Capital Project expenditures exceeded revenues and proceeds from the issuance of debt by (\$1,903,657) for the year, decreasing the Capital Project fund balance to \$10,541,104. This decreased balance represents the spending down of bond proceeds issued in 2017 and 2018 on major streets and sidewalks and parks capital projects.

Enterprise Funds - This fund type uses the economic resource focus and the accrual basis of accounting (see CAFR page 42).

- Transit Fund - Net assets in the Transit Fund were up \$2,759,997 for the year. This reflects depreciation charges and investment in capital assets (buses) offset by capital contributions from federal and state transit grants during the period. The fund finished the year with \$9.82 million in unrestricted net assets (39.6% of operating budget), up \$1.15 million from the prior year. The Transit Fund did not feel a significant financial impact from the COVID-19 pandemic in FY 2020.
- Parking Fund - The fund finished the year with expenditures exceeding revenues by (\$502,611). The COVID-19 pandemic significantly impacted this fund between the Stay at Home order, the University going virtual and the free parking we offered to help stimulate the downtown

businesses. The Town resumed charging for parking on August 1st and implemented a fee increase to standardize the fee structure for this fund.

- Housing Fund - Net assets decreased for the year by \$21,438. The fund finished the year with unrestricted net assets of \$3,014,066, which is about 138% of the annual operating budget.
- Stormwater Fund - Net assets increased by \$943,371. The fund finished the year with unrestricted net assets of \$3,154,818, an increase of \$597,637 from the prior year, which represents about 106% of the operating budget. This increase reflects an investment in capital improvements (Elliott Road Storage Project) during the year.

Trends and Analysis:

General Fund

- At the end of the fiscal year, fund balance was above the 22% target, by 1.7%. This is the result of strong revenues from the first three quarters along with a hiring freeze and hold on large purchases in the fourth quarter in response to the COVID-19 pandemic.
- Personnel savings remain a major component of the annual budgetary savings. At any given time the Town has 60-70 vacant positions. The Town acknowledges the expected personnel savings from vacancies and, to a lesser extent, savings in other cost categories created by conservative budgeting practices, and appropriating fund balance to balance the initial budget. In most years, the savings from vacancies eliminates the need to use the appropriated fund balance, thereby keeping fund balance levels stable. While this strategy has worked well in the past, our margin of error is getting smaller as we increase the amount of budgeted lapsed salaries and fund balance appropriations to balance budgets.
- The Town's property tax base is growing slowly, averaging 1.7% annual growth over the last eight years, with almost 1% of that growth from the revaluation in 2018. While there has been strong building permit activity in both residential and commercial areas during that time, with an \$8.28 billion tax base, the amount of growth needed to "move the needle" is huge.
- The slow growth in the property tax base is outpaced by the Town's operating costs, which have increased over 3% per year over the last nine years.
- The Town held its tax rate flat in FY 2020 at 54.4 cents per \$100 assessed valuation.
- The Town's investment in economic development projects also slows the realization of tax revenues from tax base growth. The tax impacts of developments in the Blue Hill District, Carraway Village, Wegmans, and Well are delayed as we commit those tax revenues to public improvements and economic incentives that helped facilitate those projects.
- Sales and other economy-driven taxes, including occupancy and utility franchise taxes, and department fees were the most affected revenues from the COVID-19 pandemic. While many economic uncertainties remain regarding the negative impact on the Town's revenues and operations in the coming year, the Town budgeted conservatively, put safeguards into place, and financial results have been positive.

Transit Fund

- Over the last several years, as the Town has not been able to rely on the availability of federal and state grant funds for bus replacement, we have devised other means of replacing buses, including borrowing and using excess fund balance. This change in strategy adds a significant layer of cost that was not considered when the Chapel Hill Transit System was developed. Ensuring the long-term financial sustainability of the system, as the long-term prospect for federal bus replacement funds remains bleak, will be a continuing challenge.

Parking Fund

- Between FY 2011 - FY 2020, there were only two times that the Parking Fund has added to fund balance as a result of the annual debt service payments. Given the need for capital maintenance of parking structures, it is uncertain that the fund can survive in its current configuration.

Housing Fund

- The fund has a healthy level of unrestricted net assets that is offset, in part, by the ongoing need

for capital improvements. Due to the age of the public housing complexes, major capital improvements are needed on an annual basis, which will spend down the level of net assets over time. The Housing Fund is dependent on Federal Operating Assistance grants. The unpredictability of this allocation is a challenge for the sustainability of the Housing Fund as it is currently structured.

Stormwater Fund

- In FY 2018, the Stormwater Fund issued \$2.7 million in general obligation bonds to fund major stormwater improvement projects, including Elliott Road Storage Project. Construction is well underway.

Summary

The Town's overall financial condition remains strong, but there are warning signs that sustaining this condition will require adjustments. The General Fund continues to see expenditures consistently outpacing its largest revenue source (property taxes). Our reliance on fund balance and lapsed salaries to balance our budget has grown to an unsustainable level, and we need to reexamine how we develop a more sustainable approach during the next budget cycle. We continue to feel the effects of the COVID-19 pandemic and do not know when things will return to normal.

Three of the Town's four enterprise funds are facing sustainability challenges due either to questions about the continuation of federal funding and/or major capital needs. The exception is the Stormwater Fund, which can regulate its cash flows by increasing the dedicated stormwater fee. The Parking and Housing funds have limits to their revenue-raising abilities, while the fare-free Transit System relies on its funding partner financial model and state and federal funding. We will continue to monitor these funds and work with stakeholders on strategies for long-term sustainability.



Attachments:

- Independent Auditors Report
- Auditor Presentation
- FY 2020 Financial Results and Trends Presentation
- FY 2021 Q2 Financial Update (to be distributed)

The Agenda will reflect the text below and/or the motion text will be used during the meeting.

PRESENTER: Brandi Fesperman, Senior Accountant, Martin Starnes & Associates, CPAs, P.A.

Amy Oland, Business Management Director

RECOMMENDATION: That the Council receive this report on the Town's CAFR for FY 2020, FY 2020 Financial Results and Trends presentation and FY 2021 Q2 Financial Update presentation.