



Legislation Text

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FY18 Financial and Economic Update.

Staff:

Amy Oland, Director

Department:

Business Management Department

Overview: The Town's Comprehensive Annual Financial Report (CAFR) for the period ended June 30, 2018 has been distributed to and is available on the Town's website. Among other things, 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, 2018. 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:

That the Council receive this report on the Town's CAFR for FY18 and financial update presentation.

FY2017-18 CAFR

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 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 FY18

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 \$171,525 and undesignated fund balance is down \$39,737. Undesignated fund balance as of 6/30/18 was 22.1% of expenditures, which is \$42,714 more than the 22% undesignated fund balance target. Fund balance has been relatively stable over the past six years, averaging about 24%. 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 \$141,135, adding to the total fund balance, which finished the year at \$7,189,523. 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 revenues and proceeds from the issuance of debt exceeded capital expenditures by \$4,219,708 for the year, increasing the Capital Project fund balance. This increased balance will be spent down in the next year or two as we continue to make progress on major 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 about \$1.86 million 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 \$6.78 million in unrestricted net assets (30.9% of operating budget), up \$4.96 million from the prior year.
- Parking Fund - The fund finished the year with revenues exceeding expenditures by \$729,746. While results from the year were positive, given the Parking Fund's high fixed costs and volatile revenues, we will need to monitor the fund's ability to continue operations without a significant subsidy or restructuring.
- Housing Fund - Net assets decreased for the year by \$327,646 as expenses exceeded revenues due in part to planned capital maintenance. The fund finished the year with unrestricted net assets of \$2,211,578, which is about 96% of the annual operating budget.
- Stormwater Fund - The fund finished the year with an increase in net assets of about \$612,934 and a decrease in unrestricted net assets of \$66,612. This decrease reflects an investment in capital improvements during the year.
- The Town implemented Governmental Accounting Standards Board (GASB) No. 75, Accounting and

Financial Reporting for Postemployment Benefits Other Than Pensions in FY 2018. The implementation required the Town to record beginning net OPEB liability and the effects on net position of contributions paid by the Town to the OPEB Trust. As a result, the enterprise funds were required to report a restatement of beginning fund balance to reflect the net OPEB liability on the balance sheet. The total restatement, which reduced fund balance for all enterprise funds, was as follows: Transit Fund - (\$4,991,674) million, Parking Fund - (\$42,637), Housing Fund - (\$291,368) and Stormwater Fund - (\$190,535).

Trends and Analysis:

General Fund

- At the end of the fiscal year, fund balance was right above the 22% target. Personnel savings remain a major component of the annual budgetary savings. At any given time the Town has 50-70 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, by budgeting lapsed salaries 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 1.72% annual growth over the last seven years. While there has been strong building permit activity in both residential and commercial areas during that time, with an \$8.0 billion tax base, the amount of growth needed to "move the needle" is huge. For instance, to raise the property tax base one percent would require the addition of two new University Place malls.
- The Town rolled back to the revenue neutral tax rate in FY18. The revenue neutral tax rate is calculated to generate the same amount of revenue that was generated in the tax year prior to the new revaluation assessments becoming effective. The revenue amount is adjusted by a growth factor based on the average tax base growth since the last revaluation. However, lowering the tax rate offsets some of the growth that has occurred in the tax base.
- The slow growth in the property tax base is outpaced by the Town's operating costs, which have increased 3.4% per year over the last seven years.
- 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, and Wegmans 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 tax and utility franchise taxes, have helped us keep pace with costs as they have increased steadily since FY11. While most forecasts show continued steady growth, we remain cautious due to the potential for unexpected changes in economic climate and/or changes in how the state distributes these revenues.

Transit Fund

- As federal funds for bus replacement have disappeared in the last few years, 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

- FY18 was only the second time since FY11 that the fund has added to fund balance (other year was FY16). Given the need for capital maintenance of parking structures, it is uncertain that the fund can survive in its current configuration. We will continue to monitor the results of the fund to determine if the fund will need a subsidy from the General Fund in the future.

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 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 FY18 award was \$273,100 more than the previous year's award. The unpredictability of this allocation is a challenge for the sustainability of the Housing Fund as it is currently structured.

Stormwater Fund







- Unrestricted net assets were \$1.53 million at year-end (56.1% of the operating budget). The Stormwater Fund issued \$2.7 million in general obligation bonds to fund major stormwater improvement projects identified in the sub-watershed study. Some of these funds, along with the \$2.7 million in debt proceeds from the issuance of a portion of the authorized \$5.9 million of Stormwater bonds, is planned to fund major stormwater improvement projects identified in the Stormwater Master Plan.

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 the means by which we balance our budget during the next budget cycle. The Town also has commitments to future projects (ex. Rogers Road) that will need to be part of the reexamination,

Three of the Town's four enterprise funds are facing sustainability challenges due either to the loss 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 is reliant on its funding partner financial model and state and federal funding for support. We will continue to monitor these funds and work with stakeholders on strategies to improve prospects for long-term sustainability.

Council Goals:

<input type="checkbox"/>		Create a Place for Everyone	<input type="checkbox"/>		Develop Good Places, New Spaces
<input checked="" type="checkbox"/>		Support Community Prosperity	<input type="checkbox"/>		Nurture Our Community
<input type="checkbox"/>		Facilitate Getting Around	<input type="checkbox"/>		Grow Town and Gown Collaboration



Attachments:

- Independent Auditors Report
- Auditor Presentation

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 FY18 and financial update presentation.