



CITY OF RALEIGH NORTH CAROLINA



CITIZENS' ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2015



2015 CITIZENS' ANNUAL FINANCIAL REPORT

OVERVIEW OF THIS REPORT

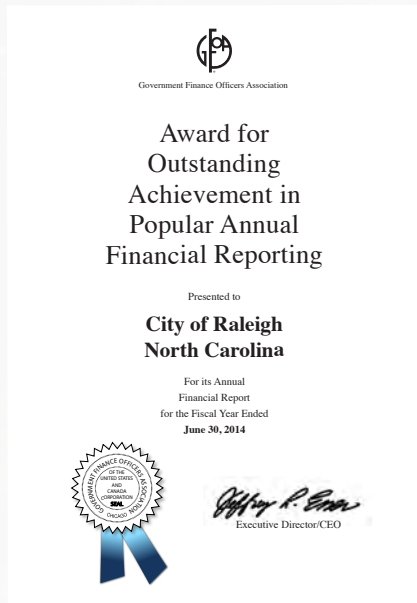
The 2015 **Citizens' Annual Financial Report** provides citizens and other interested parties with an overview of the City's financial results. This report is prepared to increase awareness throughout the community of the City's financial operations. Therefore, it is written in a user-friendly manner. The financial information is obtained from the audited financial statements in the City's 2015 Comprehensive Annual Financial Report (CAFR), or formal annual report. The Citizens' Annual Financial Report is not required to present the same level of detail as the CAFR and, therefore, may not fully conform to generally accepted accounting principles (GAAP). This report, in a summarized version, highlights the overall financial condition and trends of the City. The 2015 CAFR is audited by Cherry Bekaert LLP and has received an unmodified or "clean" audit opinion. This report may be viewed on the City's website at <http://www.raleighnc.gov/business/content/Finance/Articles/FinanceReports.html>

ABOUT THE THEME

This year, the City's Transit Department was chosen to be the featured department within this report. Pictured on the cover are several photos representing the various aspects of Raleigh's transit program. Transit went through a brand change during 2015 and is now referred to as GoRaleigh, with newly designed buses rolling out with the brand change through 2016. Also pictured is Raleigh's new Operations and Maintenance facility, which opened in 2011 in response to Raleigh's expansion of public transportation needs.

GFOA AWARD

The City of Raleigh participates in the Government Finance Officers Association (GFOA) Award Program for Outstanding Achievement in Popular Annual Financial Reporting. The award below is for last year's report.



CITY COUNCIL 2014-2015

First row:
Mary-Ann Baldwin - At Large
Nancy McFarlane - Mayor
Kay Crowder - District D

Second row:
Bonner Gaylord - District E
Eugene Weeks - District C
John Odom - Mayor Pro Tem, District B

Third Row:
Wayne Maiorano - District A
Russ Stephenson - At Large



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LETTER FROM THE CITY MANAGER



The City of Raleigh



Dear Readers:

Raleigh prides itself on its comprehensive and quality services, all provided while maintaining a sound financial position. The City's budget for fiscal year 2015 was developed to ensure the long-term financial sustainability at standards consistent with our AAA credit rating. We achieved this goal and are pleased to report to you that the City's fiscal health remains strong.

During 2015, our financial position was positively impacted by local economic conditions. As a result, the City was able to reinvest in its infrastructure as well as enhance business processes that improved service efficiencies and effectiveness. In this report, you will see that we remain a City that highly values the service quality that you receive, while continuously maintaining competitive City costs that compare to other rates across North Carolina. We also strive to maintain the equity of cost for future generations, having moderate debt levels and by actuarially funding key future costs related to our pension and healthcare obligations.

On pages 13-14 of this year's Citizens' Annual Financial Report, we are highlighting the City of Raleigh's transit program and the work it does to provide transit service throughout the City for citizens and people with disabilities. In 2015, the City of Raleigh's transit program went through a brand change from Capital Area Transit (CAT) to GoRaleigh, along with Triangle Transit as GoTriangle and Durham's transit agency as GoDurham. The Go brand across the triangle region will help all transit agencies relay a seamless transit network that exists throughout the triangle. Transit fares, a regional call center, and American with Disabilities Act (ADA) paratransit services are all coordinated to ensure the riding public can travel throughout the triangle region.

I certainly hope that you enjoy and find useful the 2015 Citizens' Annual Financial Report.

Sincerely,

Ruffin L. Hall
City Manager

LETTER FROM THE CHIEF FINANCIAL OFFICER



The City of Raleigh



To Our Citizens:

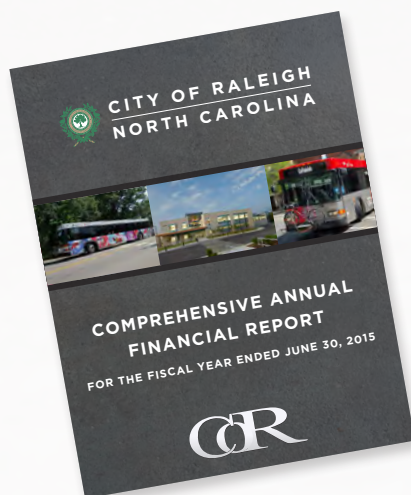
It is an important part of our financial mission at the City of Raleigh to be accountable in providing you with complete information on the finances of all our programs. The City's operations are audited each year and the resulting Comprehensive Annual Financial Report (CAFR) is available to you on the City's website, www.raleighnc.gov. Depicted below is a layout of the components of the CAFR. In addition to the CAFR, we also want to provide you a summary review of our results through this Citizens' Annual Financial Report.

Raleigh's City government includes over 4,000 employees operating in many diverse roles. Even as a large municipality, however, the City shares with every household the need to manage our resources with the same commitment to proper planning, balanced budgets and a sustainable financial position. The Citizens' Annual Financial Report is intended to report our financial results so you can understand them in a similar context to your own finances.

I am pleased to report that the City of Raleigh continues to be rated AAA by all three of the national credit rating firms. A strong financial management program is the foundation for that recognition. Thank you for your support of that as we seek to maintain that standard.

Perry E. James, III
Chief Financial Officer

LAYOUT OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):



- The Introductory Section provides an Executive Summary of the City finances. City management provides discussion and analysis of the results.
- The Financial Statements can be viewed in a consolidated or individual format. All statements conform to generally accepted accounting principles. Government-wide statements provide a long-term and short-term perspective of financial position and results of operations.
- Unique Fund Statements focus on individual operations, such as Solid Waste Services or capital projects.
- Statistical Schedules provide various trends and detailed demographic and financial information.
- The Single Audit Section provides a schedule of all of the City's grants.

THE CITY OF RALEIGH: EVERYONE'S HOUSEHOLD

The City applies the same financial fundamentals that apply to individual households. In protecting citizens from crime and fire hazards, regulating quality of housing and other construction, providing parks and recreational facilities, picking up garbage, making water and sewer available, paving roads, managing the transit system, and providing convention and performing arts events, the City of Raleigh is the level of government that touches your daily lives the most. Highlighted below are some of the ways the City's financial management practices ensure a strong financial position.

BUDGET AND PLANNING

Much like the average citizen, the City uses a balanced budget to ensure that it maintains a healthy financial position. North Carolina law requires local governments to approve a balanced budget each year. The City plans for its financial needs of the future through various ways, including budget analyses, a 10-year capital improvement plan, long range studies and multiple business models.

FINANCIAL STANDARDS

Similar to a household's need to borrow for a house or car, the City has to take on moderate debt levels in order to provide infrastructure such as parks and roads. The City's general credit ratings from the three national credit rating firms (Moody's, Standard & Poors and Fitch) are all AAA/Aaa. This represents the highest credit ratings available and allows the City to access the debt markets at the lowest interest rate costs available.



SAVING AND INVESTING FOR THE FUTURE

Similar to your personal budget, ensuring savings for the future is an important aspect of our financial stewardship. The Raleigh City Council has approved a policy that the City maintain a "savings" in its General Fund of 14% of the subsequent year's budget. The City ensures an adequate level of savings while continuing to grow and make the appropriate investments within the community.

SOURCES OF CITY FUNDS



38%
property taxes and sales taxes
(FY14: 38%)



28%
water and sewer charges
(FY14: 27%)



13%
service charges
(FY14: 16%)



13%
grants
(FY14: 13%)



8%
other
(FY14: 6%)

FISCAL ADOPTED

Fiscal year 15 (FY15) City-wide Adopted Operating and Capital budgets total \$754 million. The categories shown highlight the sources (revenues) and uses (expenses) as a percentage of the total for ease of understanding. Key priorities used as a basis to build the budget are shown on the right.

The largest tax revenues of the City are property taxes and sales taxes. These taxes predominately fund basic government services; examples include Parks, Recreation and Cultural Resources and Public Safety. FY15 property and sales taxes were budgeted to be higher than FY14 as our local economy continues to grow. Water and sewer charges are the second largest category of revenue, and reflect revenues consistent with the approved rate model for the utility system. Service charges are a third revenue stream that captures such sources as solid waste pickup and transit passenger fees that are collected specifically from those who directly benefit. The City further receives federal and state grants, as well as allocations to support specific initiatives such as street repair and maintenance. Additional revenue sources, listed as “other,” include interest income and prior year savings. Revenue sources remained relatively consistent year over year.

USES OF CITY FUNDS

YEAR 15 BUDGET

Budget priorities for FY15:

- Ensure long-term financial sustainability and financial strength
- Retain our outstanding workforce
- Reinvest in core services and leverage new facilities
- Optimize efficient and effective service delivery
- Reinvest in our existing capital facilities, roads, pipes, and technology infrastructure

28%
water and sewer operations
(FY14: 27%)



22%
public services
(FY14: 24%)



21%
public safety
(FY14: 22%)



17%
leisure services
(FY14 15%)



12%
other
(FY14: 12%)



The City provides many services to our citizens. The largest budgeted item for the City is the Water and Sewer operations. These operations provide clean drinking water and waste water services while also protecting the environment and public health. This operation is funded solely from user charges rather than tax revenues. Public Services, the second largest operation, include a wide variety of work efforts including Inspections, Planning, and Solid Waste, some of which are funded by user charges. Public Safety, which includes Fire, Police and Emergency Communications, is the third largest budgeted general governmental expenditure for the City, and is predominately funded by taxes. The fourth largest operation is Leisure Services, which include Parks, Recreation and Cultural Resources, as well as the Convention Center Complex. Other uses include general internal service organizations such as Human Resources and various community initiatives. Expenses and general uses of City funds remained relatively consistent year over year.

FY15 GOVERNMENTAL RESULTS

The Governmental activities section in the City's financial statements includes programs normally supported by taxes and allocations/grants from federal and state governments. In comparison, the City's Enterprise activities, described on pages 9-10, are funded by user charges. Governmental revenue sources cover various services, including: Public Safety (for example – Fire, Police, and Emergency Communications), Public Infrastructure (for example – Planning, Inspections, and Roadways), the Parks, Recreation and Cultural Resources Department, as well as general government administration (for example – Human Resources, Information Technology, and Finance). Governmental activities also include special revenue activities, such as grants, and capital project work, such as road resurfacing, that support general infrastructure activities across the City.

	FY15	FY14	Change
Total Assets	\$ 1,716	\$ 1,554	\$ 162
Total Liabilities	(730)	(598)	(132)
Total Net Position	\$ 986	\$ 956	\$ 30

Amounts in millions

BALANCE SHEET

A **balance sheet** provides a snapshot of what the City owns (assets) and owes (liabilities). **Net position** represents the City's investment in the assets it uses in providing services to its citizens.



Increases or decreases in net position may serve as a useful indicator of whether the City's financial position is improving or declining. The City's net position increased \$30M, which is in line with expectations. The majority (or 61%) of the City's net position is a net investment in capital infrastructure, representing land, buildings and equipment that the City uses to provide services to citizens.

INCOME STATEMENT

An **income statement** provides a summary of amounts received (revenues) and amounts spent (expenditures). The difference between revenues and expenditures shows the City's **change in net position**. A positive change in net position indicates the City had enough revenues to cover its obligations and has the ability to save for the future.

	FY15	FY14	Change
Revenues	\$ 462	\$ 435	\$ 27
Expenditures	(346)	(364)	18
Transfers Out	(55)	(39)	(16)
Restatements	(31)	-	(31)
Change in Net Position	\$ 30	\$ 32	\$ (2)

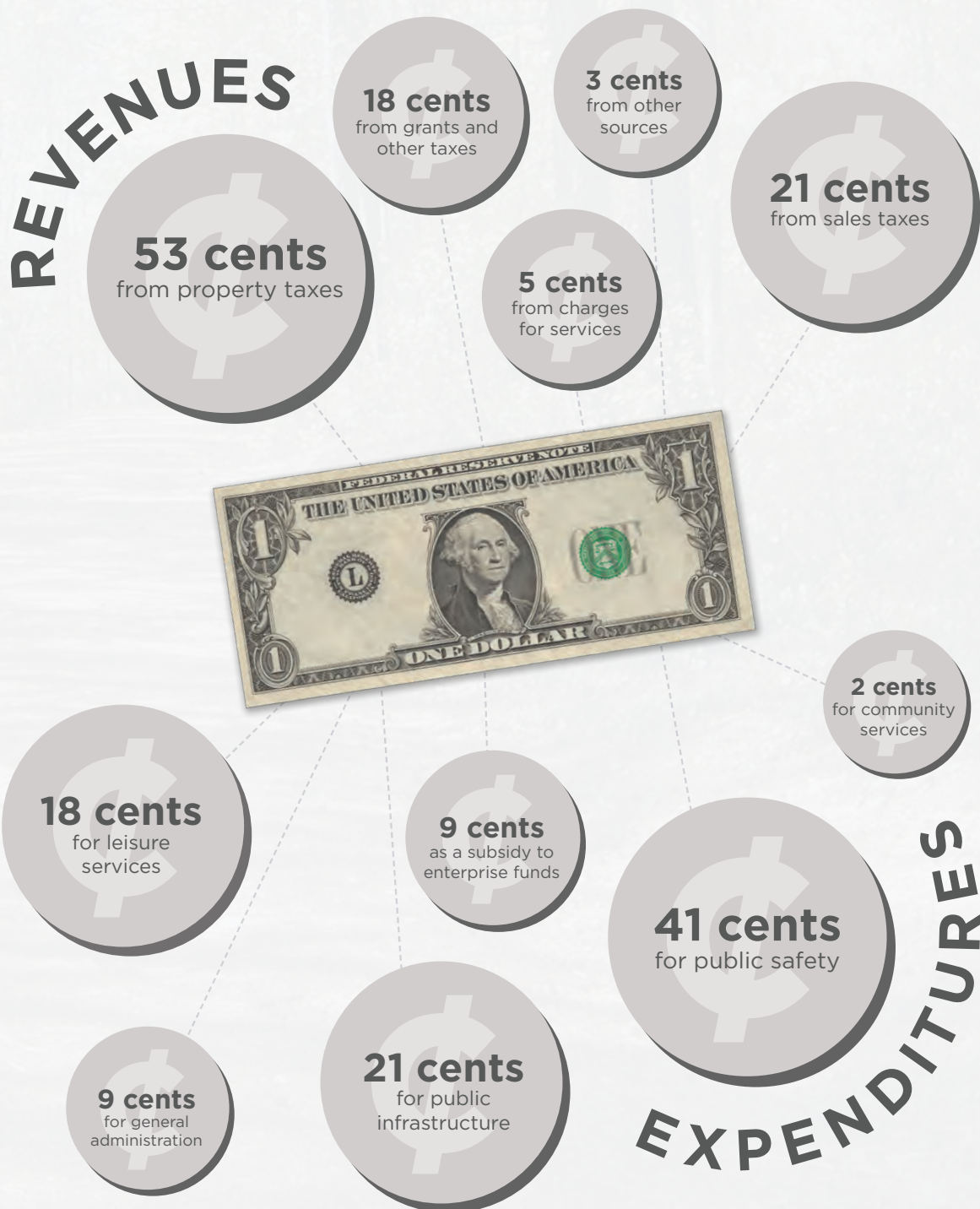
Amounts in millions



Revenue increase year over year for the City's governmental activities was driven primarily from increased receipts from property and sales taxes, which corresponds to improved economic factors and continued growth within the City. Decreases in operating expenditures year over year are a result of ongoing diligent management of City expenses and efforts to keep costs low. Restatements in the current year are a result of changes in accounting principles and the adoption of a new accounting standard during, which affected reporting presentations only and had no impact to City funding. Overall, results were consistent with expectations.

FY15 GENERAL FUND RESULTS

This information highlights the FY15 actual results specifically for the General Fund, which is the main operating fund of the City. The revenues and expenditures are displayed in cents to provide an easy to understand summary. Property taxes and sales taxes are the two largest sources of revenue totaling 74 cents of every dollar received. Public Safety (Fire, Police, and Emergency Communications) accounts for the largest area of General Fund spending at 41 cents, followed by Public Infrastructure at 21 cents.



FY15 ENTERPRISE RESULTS

Enterprise activities rely heavily on fees charged to customers for services rendered, with subsidies often being covered by General Governmental funds. The City operates six operations as Enterprise activities: Water and Sewer, Convention Center, Mass Transit, Stormwater, Parking, and Solid Waste Services.

	FY15	FY14	Change
Total Assets	\$ 2,321	\$ 2,216	\$ 105
Total Liabilities	(1,239)	(1,224)	(15)
Total Net Position	\$ 1,082	\$ 992	\$ 90

Amounts in millions

BALANCE SHEET

A **balance sheet** provides a snapshot of what the City owns (assets) and owes (liabilities). **Net position** represents the City's investment in the assets it uses in providing services to its citizens.



Over 71% of the net position of \$1,082 represents an investment in capital infrastructure. The largest types are water and sewer lines and water and sewer plants. An increase in net position of \$90 million highlights continued growth of the City and improved economic conditions.

INCOME STATEMENT

An **income statement** provides a summary of amounts received (revenues) and amounts spent (expenses). The difference between revenues and expenses shows the City's **change in net position**. A positive change in net position indicates the City had enough revenues to cover its obligations and has the ability to save for the future.

	FY15	FY14	Change
Revenues	\$ 314	\$ 282	\$ 32
Expenses	(271)	(267)	(4)
Transfers In	55	46	9
Restatement	(8)	-	(8)
Change in Net Position	\$ 90	\$ 61	\$ 29

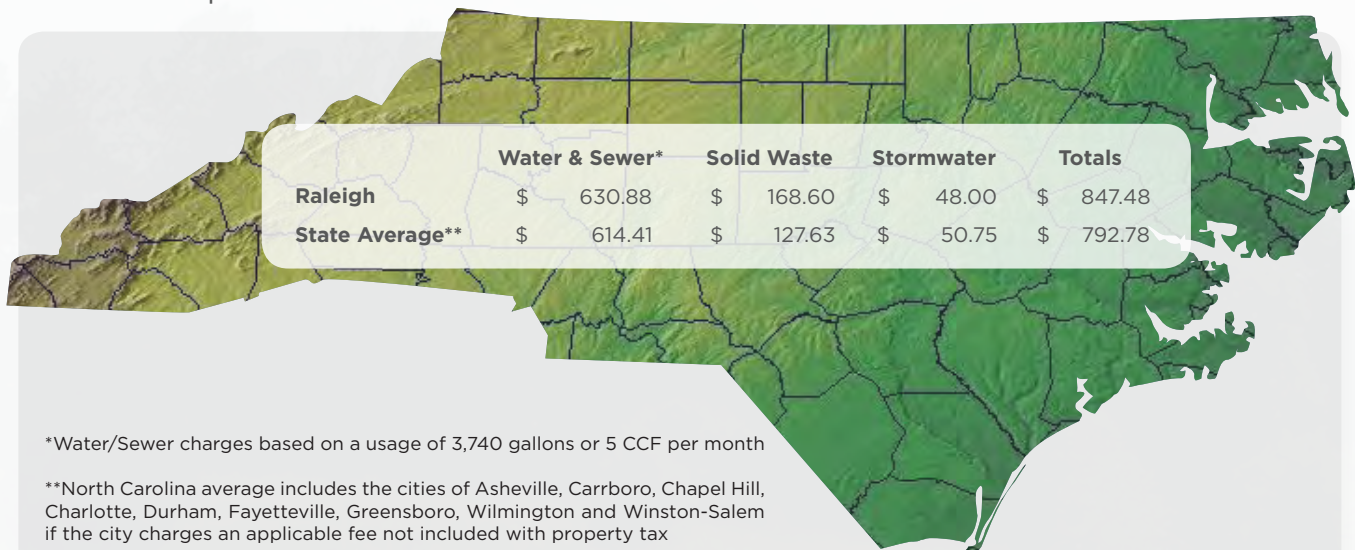
Amounts in millions



Revenue increase year over year for the City's Enterprise activities was driven primarily from new infrastructure fees and rate changes associated with financial projection models that contributed to positive results for the Water and Sewer fund. Revenue sufficiency models are used in Enterprise funds to ensure charges are adequate to cover current and future costs associated with growth and ongoing replacement of infrastructure. The addition of express routes and an increase in fares, ridership, and grant activity also contributed to increased receipts within the Mass Transit fund, helping to further drive the change in Enterprise activities revenue. The City's enterprise expenses increased slightly over the prior year. A restatement in the current year is a result of a change in accounting principles that was adopted during FY15, which affected reporting presentations only and had no impact to City funding. Overall, results were consistent with expectations.

A CLOSER LOOK AT ENTERPRISE ACTIVITIES

A portion of the annual cost of municipal services is paid monthly through your utility bill. This monthly bill includes charges for Water and Sewer, Solid Waste Services and Stormwater Services. The City offers a competitive cost for these municipal services and operates these Enterprise activities like a business, consistently monitoring revenues and expenses for needed rate adjustments and attempting to predict future liabilities and/or costs. Beginning in FY15, the City implemented a fixed infrastructure charge to fund the replacement of aging water and sewer infrastructure, and also adjusted solid waste fees. The following chart displays the average customer cost* of annual services for Water and Sewer, Solid Waste Services and Stormwater operations.



ANNUAL COSTS

Additionally, the City has three other Enterprise funds that operate as business-type activities



- **The Convention Center** includes the Raleigh Convention Center, Duke Energy Center for the Performing Arts and the Red Hat Amphitheater.
- **Parking or ParkLink** is responsible for parking enforcement, collections, parking meters, permits and maintenance/improvement of all City-owned parking decks and lots.
- **Mass Transit** includes GoRaleigh buses and the hybrid electric R-LINE, as well as Accessible Raleigh Transportation (ART), which provides transportation services for people with disabilities.

UNDERSTANDING CITY DEBT

The City continues to benefit from outstanding credit ratings. A priority of the City is to maintain the long-term financial sustainability of our general governmental and business-type operations. This strong commitment has resulted in the City receiving AAA quality credit ratings, which is the highest rating available for general credit. The City has maintained this general credit AAA rating since 1973.

The City issues debt to fund major general governmental and business-type capital needs. As noted below, debt in the Enterprise funds exceeds general governmental debt due to the capital intensive nature of these activities. Approximately 65% of the City's total debt is paid for by business-type user charges while 35% of the City's debt is paid for by general governmental revenue.

GOVERNMENTAL

General Government debt totals \$556 million and is used to support projects such as parks, new facilities and streets.

FY15 debt activity included:

- \$66.7 million to finance the construction of the new communications center and a fire station
- \$35.1 million to finance projects for streets, parks and housing
- \$15.2 million for rolling stock equipment

11% - FY15 actual debt payments compared to General Fund budget. City policy allows for a maximum of 15%

DEBT REFINANCING

- \$4.9 million in debt service savings over twenty years was achieved from the refunding of \$21.4 million in parking bonds
- \$10.1 million in debt service savings over twenty years was achieved from the refunding of \$47.8 million in water and sewer revenue bonds

BUSINESS-TYPE ACTIVITIES

The majority of City debt is associated with our Enterprise funds, specifically Public Utilities, Convention Center and Parking. In total, debt for business-type activities is \$1.1 billion.

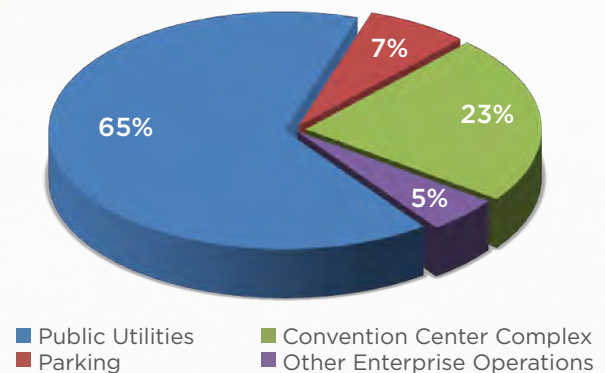
This debt supports capital infrastructure needs and helps to build new facilities.

FY15 debt activity included:

- \$16.6 million for rolling stock equipment
- \$3.7 million for improvements to the Performing Arts center (PAC).
- The Parking and Water and Sewer Enterprise funds both refinanced debt. See summary below.

An important point about business-type debt is that the debt is repaid from business related charges, not from general revenue sources.

Business Type Debt



RALEIGH ACCOLADES AND DEMOGRAPHICS

Raleigh continues to be ranked among the best places in the United States to live, work, play and more. Here are a few accolades the City has received:

If you would like to read more about the City's continued success, please visit the City's website at www.raleighnc.gov and click on the link at the bottom of the page titled "View our accolades."

Best Place for Business and Careers

July, 2014 - Forbes

2nd on list of "Best American Cities to Find a Job"

November, 2014 - Forbes

3rd on list of "Best Cities to Work"

May, 2015 - WalletHub

1st on list of "Mid-Sized American Cities of the Future"

April, 2015 - The Financial Times

2nd on list of "Most Educated Cities/ Towns in America"

September, 2014 - WalletHub

Major Industries & Employers:

As the Capital of the State, the City derives its economic profile from a diverse combination of business and employment centers, including Federal and State government, higher education, information technology, scientific research, healthcare and retail trade. The top ten employers within the City include:

State of North Carolina
Wake County Public School System
Wake Med Health and Hospitals
North Carolina State University
Rex Healthcare

City of Raleigh
N.C. DHHS
Duke Energy Progress
Wake County Government
Wake Technical Community College

Source: Wake County Economic Development website



Raleigh population:

439,896



43rd

largest city
in the U.S.

145
square
miles



SECOND

largest city in
North Carolina



5.1%
unemployment rate

109,601

permits
issued
(all trade types)



GoRaleigh Mission Statement:

"To improve mobility for Raleigh residents and visitors by providing safe, affordable and customer-oriented transportation while proactively promoting economic opportunity, intermodal connection and sustainable regional development."



During the 2015 fiscal year, the City of Raleigh's transit program went through a brand change that was three years in the making. What was once Capital Area Transit, CAT for short, is now known as GoRaleigh. The announcement, made in March 2015, also introduced the region's transit partner, Triangle Transit, as GoTriangle and Durham's transit agency as GoDurham. Other triangle transit programs are expected to follow the same branding change. The Go brand across the triangle region, known under the

overarching name of GoTransit, will help all transit agencies relay the seamless transit network that exists throughout the triangle. Transit fares, a regional call center, and American with Disabilities Act (ADA) paratransit services are all coordinated to ensure the riding public can travel with ease within the triangle region.

GoRaleigh provides transit service throughout the City of Raleigh, taking people to work, play and beyond through Raleigh's best known spots - world-class museums, live concerts, capital area historic sites, professional and amateur sporting events, best of Broadway shows and several major retail areas. GoRaleigh also operates the R-LINE service in downtown Raleigh. The R-LINE is an eco-friendly approach to urban transportation. The free circulator service features hybrid electric buses that connect customers to restaurants, retail, hotels and more in downtown Raleigh. Buses run approximately every 15 minutes, making it a great way to get around.

GoRaleigh employs 163 fixed route bus drivers and more than 200 employees who help to operate a fleet of over 90 buses for the City. Not only do they operate routes within Raleigh, but they also operate express services that reach as far as Johnston County. Extra express routes were added to the region to help alleviate traffic during the Interstate 40 "Fortify" construction project.

The City has also made accommodations to adhere to ADA mandates requiring that each public entity operating a fixed route transit system provide complementary paratransit service to individuals whose functional disabilities prevent use of accessible fixed route bus and rail systems. The ADA paratransit program utilizes 35 taxi companies and two contracted agencies to provide services during the same hours and days of services as GoRaleigh; this is accomplished with over 200 vehicles. Paratransit service is available to Accessible Raleigh Transportation (ART) users who qualify under the ADA. The level of service for these individuals is to be comparable to the level of service provided to individuals without disabilities, including access within the same fixed route system, days and hours of service, fares, service area, response time, etc. ART trips are eligible for paratransit service only if the trip begins and ends within 3/4 miles of a GoRaleigh bus stop. Other eligibility requirements may apply.

RALEIGH TRANSIT PROGRAM

In total, GoRaleigh saw over 5.6 million boardings in the 2015 fiscal year, averaging nearly 16,000 per day. ART had over 418,000 boardings for the year, averaging over 1,000 per day.

GoRaleigh's involvement with the City doesn't stop though with just giving people rides. Since 2009, transit has partnered with the Office of Raleigh Arts to feature local artists' work for Art on the Move. During the annual Artsposure event, twelve buses, fully wrapped in artwork, were unveiled. The buses will continue to display the art for many months into the fall.



Aligning with the GoRaleigh Mission Statement, the 2015 fiscal year set the stage for many essential capital projects. The engineering and design of Moore Square Station began, and the South Blount Street paratransit facility saw renovations to help the ART program prepare for future growth. Eleven new buses were purchased that will help the transit program remain modern and in a good state of repair. Other projects included the continued installation of improved passenger amenities through GoRaleigh service areas, such as ADA accessible shelters and benches. Typically, capital projects for Transit are funded with a 60% to 80% Federal share. This varies by project.

Riding the bus is beneficial in several ways for the City of Raleigh. Convenient routes throughout the City include easy downtown access with the R-Line, museums, major shopping centers, parks, greenways and more. It's economical, earth friendly and convenient. Not only does it save people money on gas and wear and tear on their own vehicles, it saves the environment when you take more of those people off of the roads.

RALEIGH TRANSIT PROGRAM BY THE NUMBERS

200

EMPLOYEES IN
FLEET OPERATIONS



6 MILLION

boardings collectively between GoRaleigh
and ART in FY15

19

RADIAL ROUTES

9

CONNECTOR ROUTES

3

EXPRESS ROUTES



R LINE

DOWNTOWN CIRCULAR

163

FIXED
ROUTE
BUS
DRIVERS





CITY OF RALEIGH'S MISSION STATEMENT

"We are a 21st century city of innovation focusing on environmental, cultural, and economic sustainability.

We conserve and protect our environmental resources through best practices and cutting-edge conservation and stewardship, land use, infrastructure and building technologies.

We welcome growth and diversity through policies and programs that will protect, preserve and enhance Raleigh's existing neighborhoods, natural amenities, rich history, and cultural and human resources for future generations.

We lead to develop an improved neighborhood quality of life and standard of living for all our citizens.

We work with our universities, colleges, citizens and regional partners to promote emerging technologies, create new job opportunities and cultivate local businesses and entrepreneurs.

We recruit and train a 21st century staff with the knowledge and skill sets to carry out this mission, through transparent civic engagement and providing the very best customer service to our current citizens in the most efficient and cost-effective manner."



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www.raleighnc.gov