



FY16



CITIZENS' ANNUAL FINANCIAL REPORT

CITY OF RALEIGH, NORTH CAROLINA FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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Report Overview

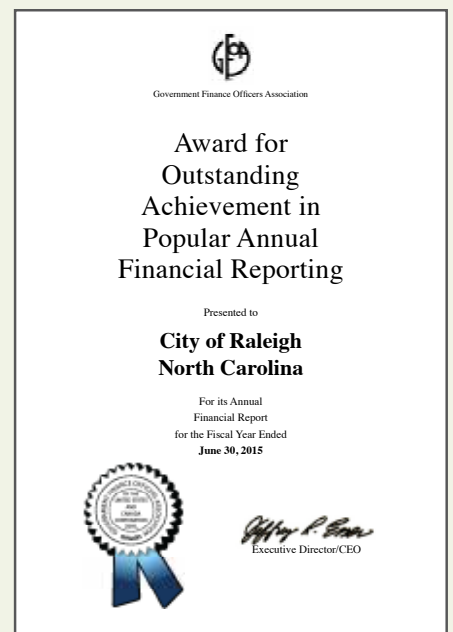
The 2016 Citizens' Annual Financial Report provides citizens and other interested parties with a user-friendly overview of the City's financial results. This report is prepared to increase awareness throughout the community of the City's financial operations. The financial information is obtained from the audited financial statements in the City's 2016 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 2016 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 Fire Department was chosen to be the featured department within this report. Pictured on the cover is the Fallen Firefighter Memorial located in historic Nash Square in downtown Raleigh. The bronze statue was dedicated in 2006 to recognize the heroism and sacrifice of the brave men and women who serve, and is surrounded by plaques engraved with the names of fallen firefighters. The Raleigh Fire Department continues to adapt to the City's growth in size and population, and remains committed to upholding its mission for "Unselfish Dedicated Service" to the citizens and visitors of Raleigh.

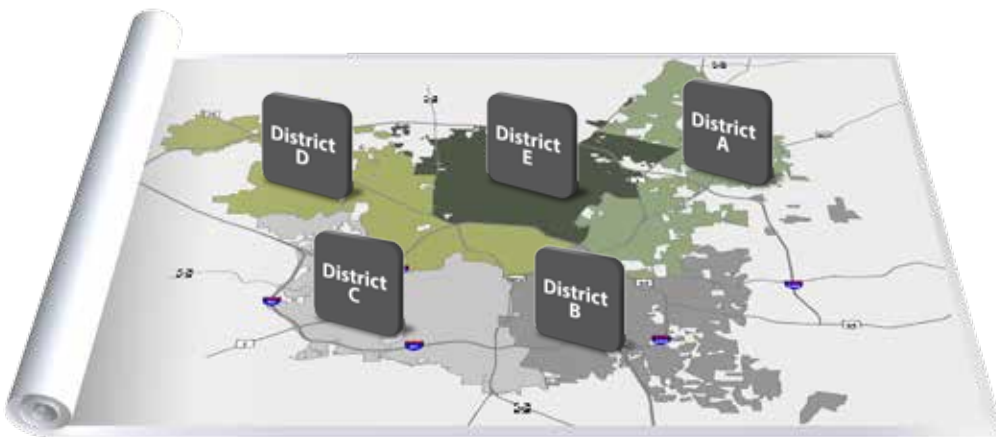
GFOA Award

The Government Finance Officers Association (GFOA) represents public finance officials throughout the United States and Canada, whose shared mission is to promote excellence in state and local government financial management. The City of Raleigh participates in the GFOA Award Program for Outstanding Achievement in Popular Annual Financial Reporting. The award shown is for last year's report.





Raleigh City Council 2016



Top row:

Richard "Dickie" Thompson,
Corey Branch, Russ Stephenson, David Cox

Bottom row:

Mary-Ann Baldwin, Nancy McFarlane,
Kay Crowder, Bonner Gaylord

Nancy McFarlane
Russ Stephenson
Mary-Ann Baldwin
Richard "Dickie" Thompson
David Cox
Corey Branch
Kay Crowder
Bonner Gaylord

Mayor
At Large
At Large
District A
District B
District C
District D
District E



“Raleigh prides itself on its comprehensive and quality services”

Leadership | From the City Manager

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 2016 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 2016, 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, and strategically apply resources to serve the needs of the City and its citizens. 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 16-19 of this year’s Citizens’ Annual Financial Report, we are highlighting the City of Raleigh’s Fire Department and the work it does to provide for the safety of those who live, visit, work, or invest here in Raleigh. These brave men and women serve the City 24 hours a day, 365 days a year. In 2016, the City of Raleigh’s Fire Department welcomed new emergency responders, conducted numerous educational presentations and outreach programs, and worked on strategic plans to account for the continued growth of our City.

I certainly hope that you enjoy and find useful the 2016 Citizens’ Annual Financial Report.

Sincerely |  Ruffin L. Hall | **City Manager**



From the Chief Financial Officer


To Our Citizens:

It is an important part of our financial mission at the City of Raleigh to be accountable and transparent in providing you with complete information on the financial position and results 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, to provide you the most detailed information on our finances.

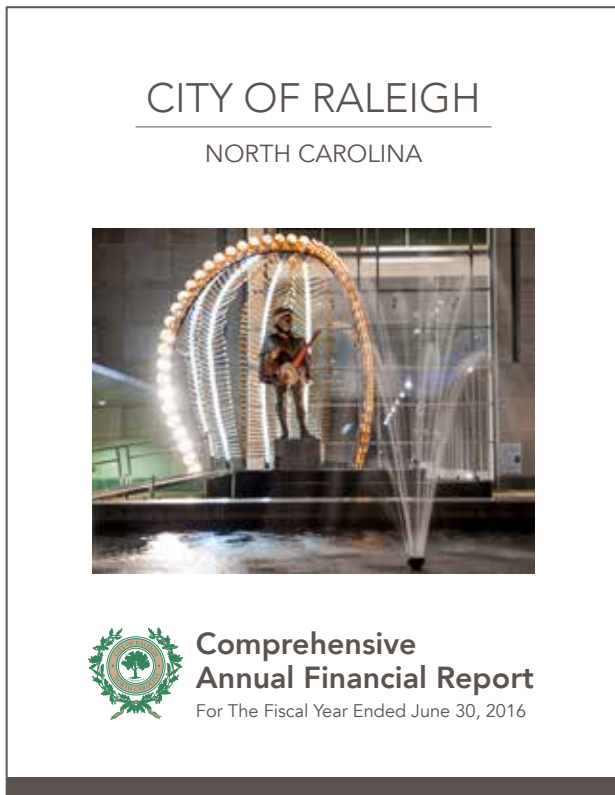
Depicted below is a layout of the components of the CAFR. In addition to the CAFR, we also produce this Citizens' Annual Financial Report, which provides you a summary review of the City's finances in a more user-friendly and understandable manner. We hope that you will find this helpful.

Raleigh's City government includes over 5,000 full and part-time 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. We prepare the Citizens' Annual Financial Report with an objective of explaining key financial measurements for the City 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.

Sincerely |  Perry E. James, III | **Chief Financial Officer**

Layout of the 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 GAAP. 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 to the management of the City's finances 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 financial 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

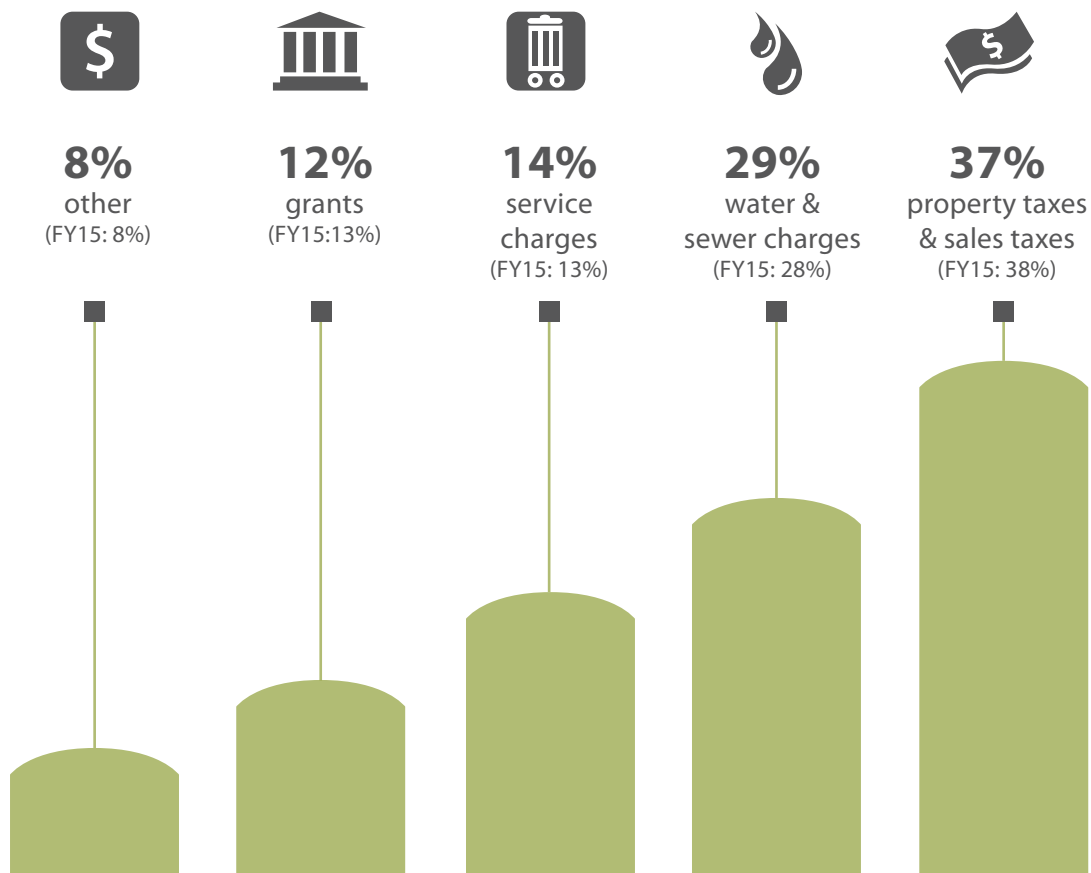
Similar to your personal budget, ensuring savings for the future is an important aspect of our financial stewardship. The Raleigh City Council has approved a policy that the City maintain a "savings" in its General Fund of 14% of the subsequent year's budget. The City ensures an adequate level of savings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

Sources | City Funds

The largest tax revenues of the City are property taxes and sales taxes. These taxes predominately fund basic government services; examples include Public Works, Leisure Services, General Government, and Public Safety. 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 capture such sources as solid waste pickup and transit passenger fees that are collected specifically from those who directly benefit and utilize the service. The City also 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.

FISCAL YEAR 16 ADOPTED BUDGET

Fiscal year 16 (FY16) City-wide Adopted Operating and Capital budgets total \$834 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.

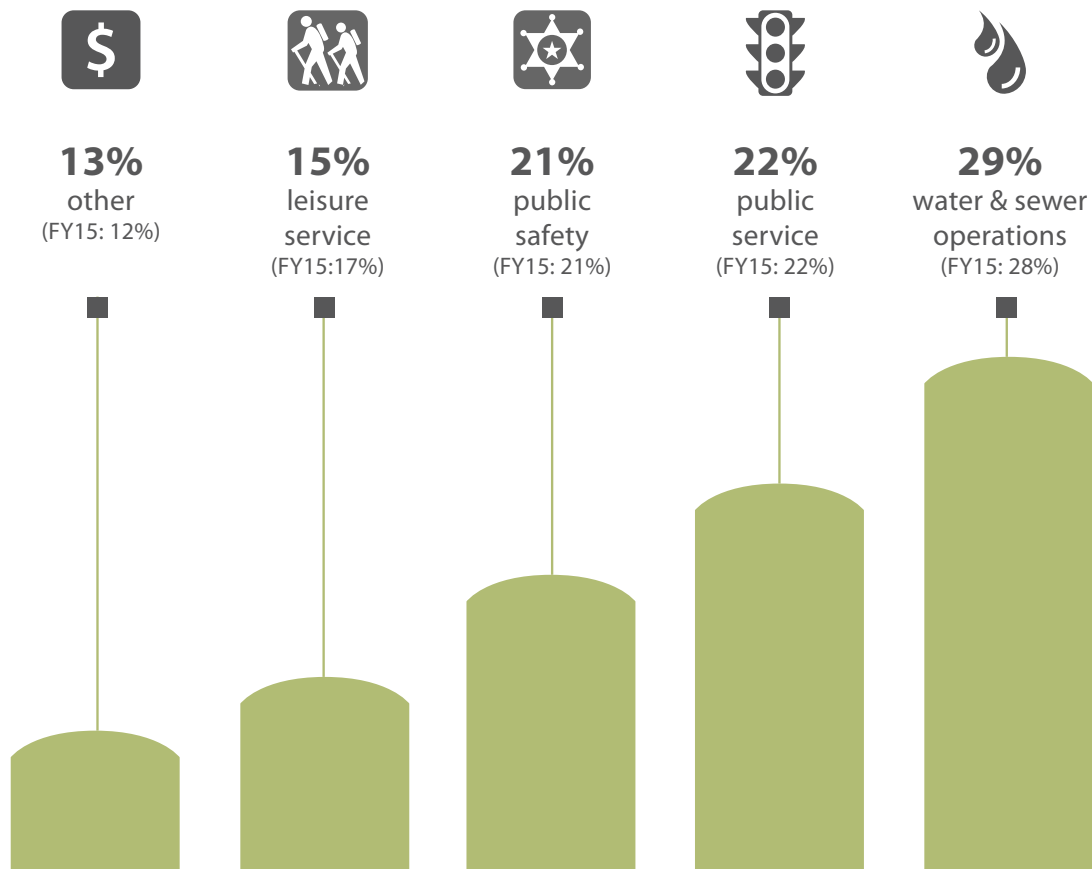


Uses | City Funds

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 budget category, includes a wide variety of work efforts including Inspections, Planning, and Solid Waste, some of which are partially funded by user charges. Public Safety includes general governmental operations for Fire, Police and Emergency Communications, and is predominately funded by taxes. Leisure Services 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, such as housing assistance. Expenses and general uses of City funds remained relatively consistent year over year.

Budget priorities for FY16:

- Ensure long-term financial sustainability and financial strength
- Respond to increasing development activity
- Continue to meet public safety needs
- Address community growth and set strategic plans to align resources to needs
- Invest in human capital and retain our outstanding workforce
- Reinvest in core services and leverage new facilities
- Optimize efficient and effective service delivery
- Reinvest in our existing capital infrastructures and plan funding for future needs



FY16 | 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 12, are mainly funded by user charges. Governmental revenue sources cover various services, including: Public Safety efforts such as Fire, Police, and Emergency Communications; Public Infrastructure capturing City Planning, Inspections, and Roadways; the Parks, Recreation and Cultural Resources Department; as well as general government administration such as Human Resources, Information Technology, and Finance. Governmental activities also include special revenue activities, such as grants and capital project work that support general infrastructure activities across the City.

Balance sheet

Amounts in millions	FY16	FY15	Change
Total Assets	\$ 1,787	\$ 1,716	\$ 71
Total Liabilities	(735)	(730)	(5)
Total Net Position	\$ 1,052	\$ 986	\$ 66

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 \$66M, which is in line with expectations. The majority (or 57%) 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

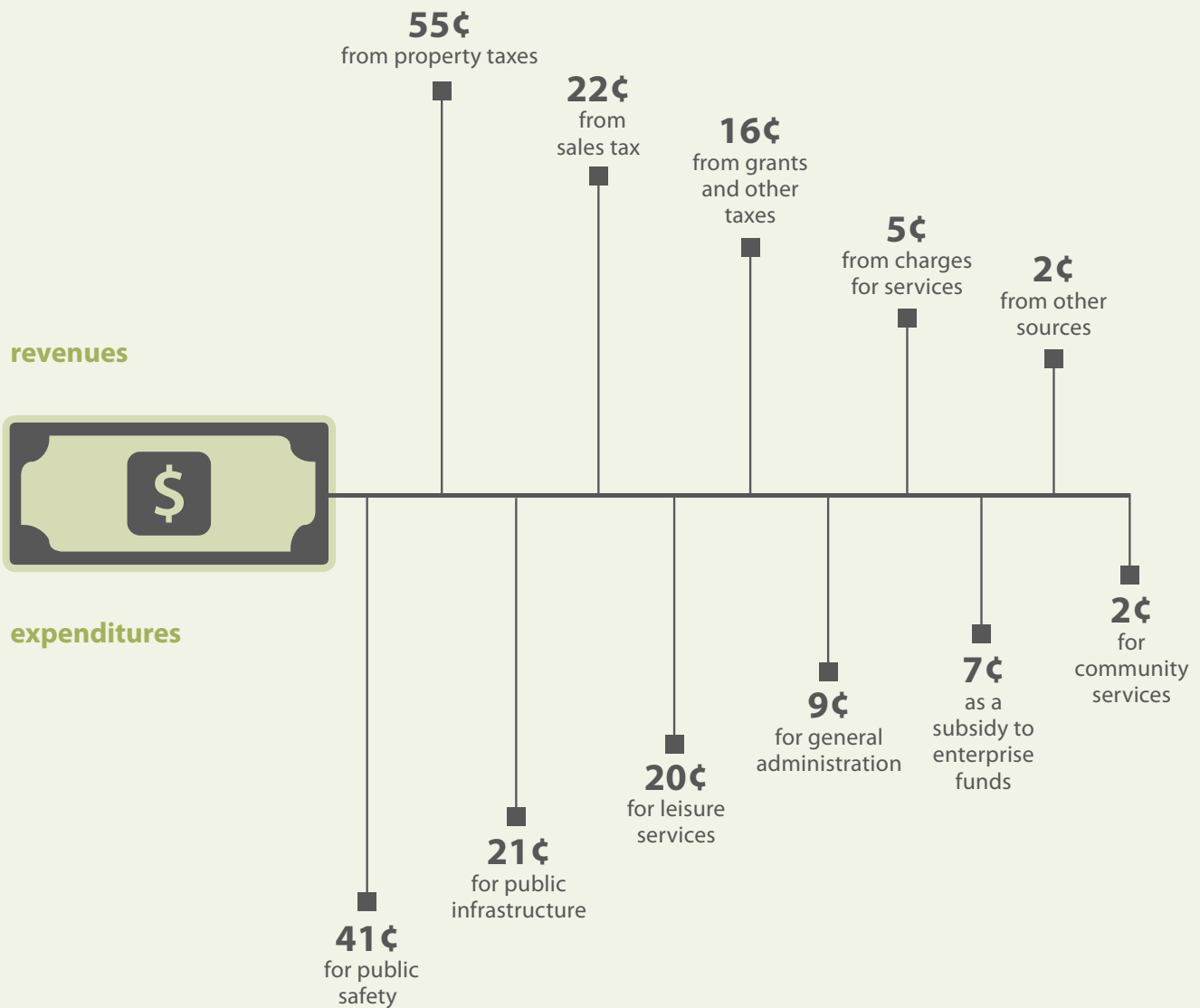
Amounts in millions	FY16	FY15	Change
Revenues	\$ 482	\$ 462	\$ 20
Expenditures	(376)	(346)	(30)
Transfers In (Out)	(51)	(55)	4
Gain on Sale of Property	8	0	8
Restatements	3	(31)	34
Change in Net Position	\$ 66	\$ 30	\$ 36

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.

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. While the City remains focused on diligent management of City expenses and efforts to keep costs low, there was an increase in operating expenditures year over year as a result of continued growth and investment in the workforce. Restatements in the current year reflect a new accounting standard during FY16. Restatements in the prior year are a result of changes in accounting principles and the adoption of a new accounting standard. Overall, results were positive and consistent with expectations.

FY16 | General Fund Results

This information highlights the FY16 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 77 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 outlays for Public Infrastructure at 21 cents.



FY16 | Enterprise Results

Enterprise activities rely heavily on fees charged to customers for services rendered. The City operates six operations as Enterprise activities: Water and Sewer, Convention Center Complex, Mass Transit, Stormwater, Parking, and Solid Waste Services.

Balance Sheet

Amounts in millions	FY16	FY15	Change
Total Assets	\$ 2,420	\$ 2,321	\$ 99
Total Liabilities	(1,247)	(1,239)	(8)
Total Net Position	\$ 1,173	\$ 1,082	\$ 91

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 68% of the net position of \$1,173 million 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 \$91 million highlights continued growth of the City and improved economic conditions.

Income statement

Amounts in millions	FY16	FY15	Change
Revenues	\$ 324	\$ 314	\$ 10
Expenditures	(284)	(271)	(13)
Transfers In (Out)	51	55	(4)
Restatement	–	(8)	8
Change in Net Position	\$ 91	\$ 90	\$ 1

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.

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 Parking fund and Solid Waste Services fund also had scheduled fee increases that generated additional operating revenue in 2016, helping to further drive the change in Enterprise activities revenue. The City's expenses increased slightly over the prior year. Restatements in the prior year are a result of changes in accounting principles. Overall, results were positive and consistent with expectations.

FY16 | Capital Improvement Plan

The City utilizes a Capital Improvement Plan (CIP) as a financial vehicle to plan capital project initiatives and funding needs over the next 5 years. Capital projects generally include buildings, land, major technology projects, and general improvements. The CIP is approved by City Council annually, and is formulated based upon priorities from ongoing long-term studies, citizen input, and the City's efforts to target resources in ways intended to have the greatest impact.

The five year CIP plan for FY 2016-20 may be found at:

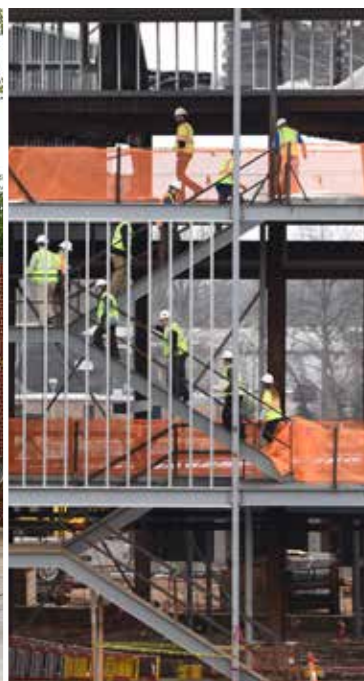
www.raleighnc.gov/content/extra/Books/BudgetManagement/FY2016CIP/

During FY 2015-16, the City completed a number of projects previously budgeted in the City's Capital Improvement Plan, including the following:

- New City facilities including the Central Operations Facility, which houses key Transportation operations and Fire Station #29 in northwest Raleigh
- Major street projects including the Falls of Neuse Widening/Realignment and the Perry Creek Rd. Widening
- Expanded resurfacing of City streets
- Water and Sewer capital improvements, including water main replacements, waste water treatment plant expansions/maintenance and sewer infrastructure
- Opening of three Parks, Recreation and Cultural Resource facilities

In addition, the FY 2015-16 Plan budgeted for new or continuing capital projects consistent with the City's strategic plan and comprehensive plan, including the following highlights:

- Major street improvements including Hillsborough St. Phase II and Sandy Forks Rd. widening and rehabilitation
- Water and sewer projects including continuation of the Crabtree Pipeline Project, the Wastewater Treatment Plant expansion and 18 new sewer interceptor upgrade projects
- Continued funding of priority lake rehabilitation projects
- Parks, Recreation and Cultural Resource facility maintenance such as park lighting, aquatic improvements and ADA upgrades as well as new facility and greenway construction
- Expanded affordable housing development initiatives
- Capital and maintenance improvements to the Convention Center Complex



FY16 | 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 government and business-type capital needs. As noted below, debt in the Enterprise funds exceeds general government 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 \$563.8 million and is used to support projects such as parks, new facilities and streets.

FY16 new debt activity included:

- \$52.0 million to finance the purchase of the Dorthea Dix Park property
- \$2.2 million to finance fire stations
- \$6.0 million to finance projects for housing

11.5% - Percent of FY16 actual debt payments compared to General Fund budget. City policy allows for a maximum of 15.0%

Business-type activities

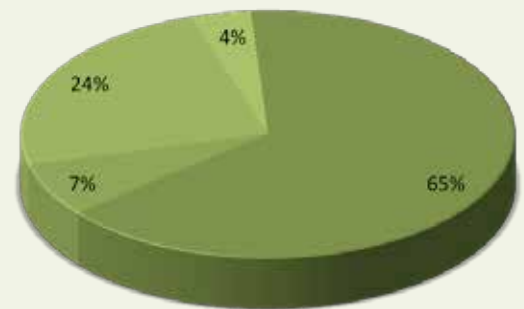
The majority of City debt is associated with our enterprise funds, specifically Public Utilities, Convention Center Complex and Parking. In total, outstanding debt for business-type activities is \$1.0 billion.

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

FY16 new debt activity included:

- \$11.8 million for improvements to the Convention Center Complex and Performing Arts Center (PAC).

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



 Public Utilities	65%
 Parking	7%
 Convention Center Complex	24%
 Other Enterprise Operations	4%

Debt refinancing

The City did a number of debt refinances in FY16, which are disclosed fully within the CAFR. A few of the larger refinance deals are below:

- \$49.9 million in water and sewer revenue bonds, which will reduce future debt payments by \$6.5 million over ten years
- \$19.2 million of bonds issued for general government, parking, and solid waste, which will reduce future debt payments by \$3.8 million over fifteen years
- \$118.1 million in public improvement and housing bonds, which will reduce future debt payments by \$14.8 million over fifteen years

FY16 | 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:

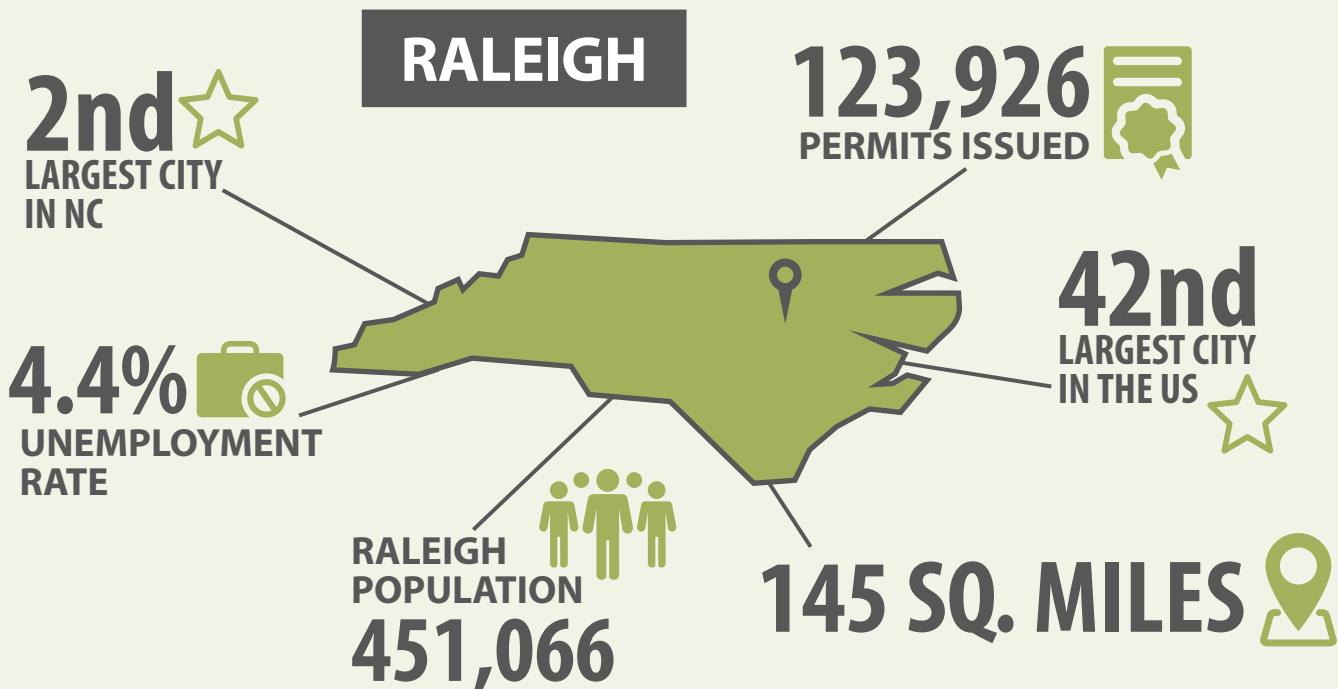
- One of the 7 Hottest Startup Hubs Outside of Silicon Valley (February 2016 – Mattermark)
- One of the 100 Best Cities for Recent Graduates (March 2016 – NerdWallet.com)
- 3rd Best City for Young Professionals (March 2016 – Forbes Magazine)
- 3rd Best City for Young Families (February 2016 – ValuePenguin.com)
- 5th on list of America’s Next Boom Towns (January 2016 – Forbes Magazine)

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



If you would like to read more about the City’s accolades, please visit the City’s website at www.raleighnc.gov.



Spotlight on Raleigh Fire Department

Mission | Unselfish Dedicated Service

Raleigh Fire Department Mission Statement: “Unselfish Dedicated Service” – epitomizes our core being, and was created to be easily remembered by all.

The Raleigh Fire Department (RFD) contributes services to the community through its responsibilities for fire prevention, inspections, suppression, emergency medical services, rescue, hazardous material response and other assistance requests. During the 2016 fiscal year, the RFD conducted risk and capability-based planning to establish a strategic 5 year road map with a vision that embodies anticipating risks, continually enhancing capabilities through preparation, growing as an organization to meet increasing public safety demands, and empowering internal and external stakeholders. The aforementioned initiatives were grounded by the core values of the RFD: Professionalism, Respect, Integrity, Dedication, and Excellence. These values, which are essential and enduring tenets that guide personal actions, were born on the premise that the work they perform, whether on or off duty, make a difference in the City and greater metropolitan area

2016 Budget Focus

The RFD’s 2016 fiscal year budget of \$55.5 M was allocated primarily to personnel costs and benefits for those firefighters, trainers, administrators, and other supporting roles that help contribute to the safety of our City. This included 37 new emergency responders that the City welcomed in July 2016 after recruits completed a rigorous 29 week academy comprising of both intense physical training and a challenging academic program. Budget was also designated for operating expenditures, capital equipment, and special programs and projects geared to effectively preventing fires.

Special Initiatives

One of the greatest ways to achieve prevention is by investing in public outreach and education for the citizens and visitors of Raleigh. The RFD has always conducted public outreach and education, but the renewed focus in the 2016 fiscal year was to increase the number of events. With the help of a designated team of fire and life safety educators, the RFD hosted 55 educational presentations in the last year and had approximately 3,000 attendees come out to learn, ask questions, and meet the firefighters.

One of the presentations which generated a lot of excitement was the Occupancy Based Fire & Safety Seminars. This new initiative offers attendees valuable information on new and existing code provisions, common fire causes within various business types, and a detailed explanation of what to expect during a State-mandated fire inspection. There are several benefits that arise out of these monthly sessions as attendees put into practice what they learn. To name a few, community members are reducing completion times for inspections, proactively addressing code violations to prevent incidents, saving both lives and money, and are helping to strengthen public/private/non-profit sector relationships.

Furthermore, the RFD conducted 450 special outreach programs with over 38,000 citizens participating this year in events that sought to empower the community to protect their lives and property. The RFD continues to seek methods to promote safe practices and emergency techniques, as well as combat trending public safety risks through awareness. The RFD focuses on developing a multitude of tools and strategies to craft education presentations throughout the City for specific audiences, i.e. academia, special event attendees, etc. Each month the Office of the Fire Marshal provides a training outline accompanied with current statistics to each of the fire stations to share with the public during scheduled outreach programs.

Continued Growth

With an estimated population of 451,066 in Raleigh and growing, future planning and development of safety response teams will remain vital. The City has demonstrated its commitment to this goal by dedicating resources to maintain and redevelop fire station infrastructures. The 2016 budget cycle highlighted increased expenditures for the maintenance and repair of Fire Station #29 on Leesville Road, and the newly created engine and ladder companies for this facility. The RFD is also underway with a multiyear fire station renovation, rebuild and relocation program to ensure the City has the community facilities and services to meet increasing future demands. Legacy fire stations are vital to the response capability of the RFD, and this program aims to enhance the physical and functional condition of the facilities to assure optimal operational performance. Construction already in progress, Fire Station #5, located adjacent to Cameron Village, is the first recipient of new design services and comprehensive renovations under this program.

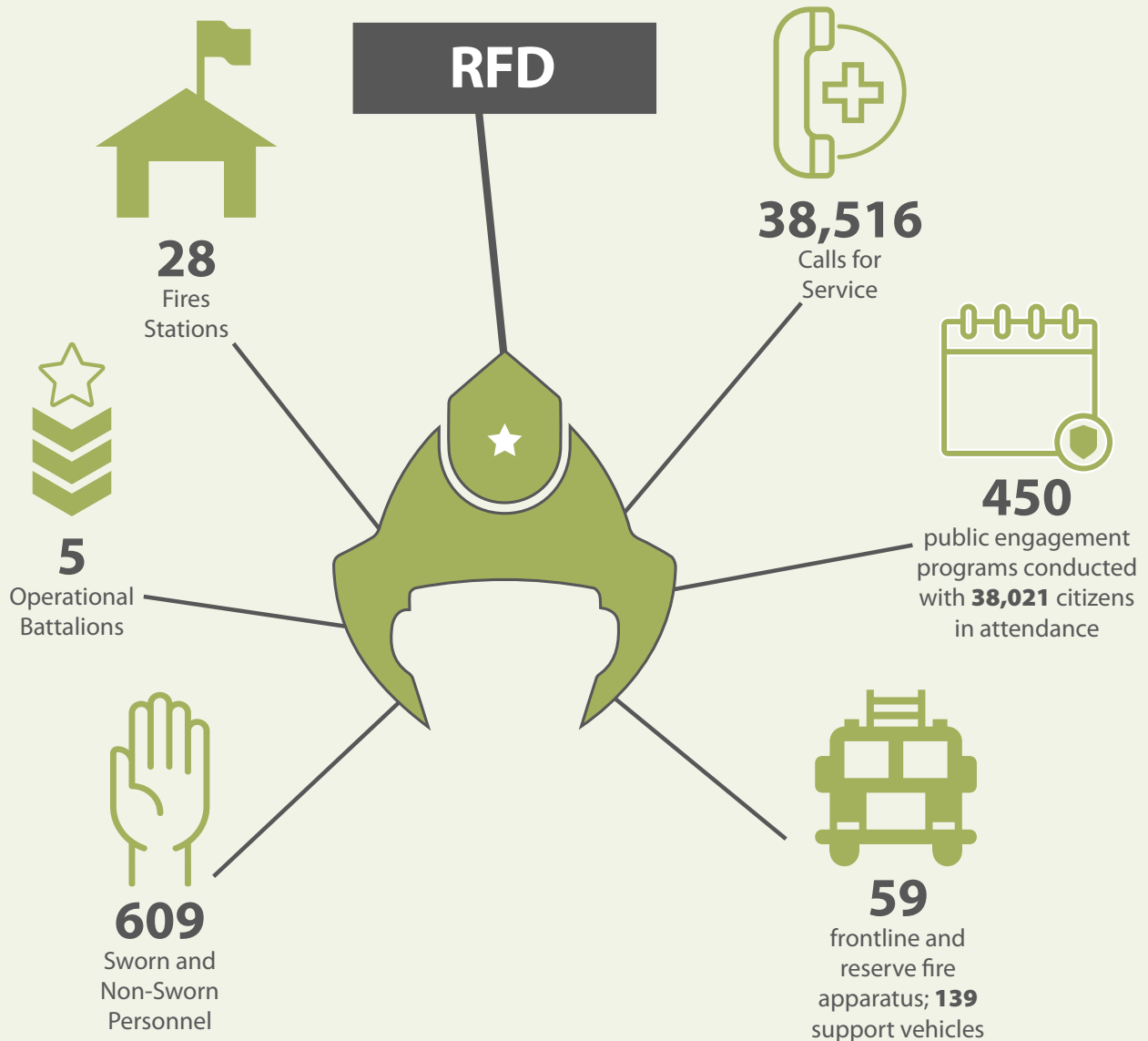




New fire service facilities are designed to provide enhanced operational functionality, allowing firefighters to better respond to risk factors as calls roll in 24 hours a day, 365 days a year. Several factors go into the decision-making process for future and relocated fire stations, including area call volumes and populations. With a service area spanning over 180 square miles, the RFD also leverages information like Geographic Information Systems (GIS) to identify the best geographic locations compared to national standards. The ultimate goal is to strategically place resources in modern, code compliant, highly functional facilities that maximize response coverage. For example, in 2016 Station #12 on Poole Road was relocated more east of its current location to provide quicker response times to activity in the southeast region of the City. Overall, these improvement projects ensure the City's public safety facilities remain an innovation hub where resilient communities flourish. The RFD continues to explore ways to protect the safety of those who live, visit, work, or invest here in Raleigh.

The Raleigh Fire Department would like to thank all of the individuals and organizations that partnered with us during the year and helped maximize contributions to the assurance of a "Safe, Vibrant and Health Community."

Raleigh Fire Department by the numbers:





City of Raleigh's Mission Statement

Photo Credits

"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."

Lee Wilson – Cover
Airlift Media – PG. 6
David Blount – PG 3, 13
Mark Peterson – PG. 18
Mike Legeros – PG. 16,17,18

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