



Raleigh



CITIZENS' ANNUAL FINANCIAL REPORT

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FISCAL YEAR ENDING JUNE 30, 2018

Report Overview

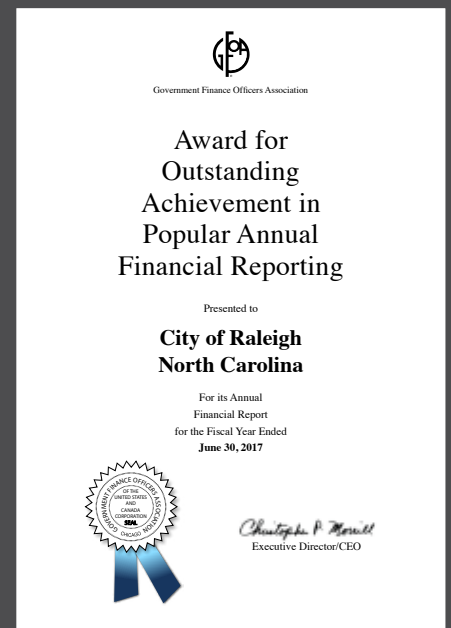
The fiscal year 2018 (FY18) **Citizens' Annual Financial Report** provides citizens and other interested parties with a user-friendly overview of the City's financial results. This report is prepared to increase awareness of the City's financial operations. The financial information is obtained from the audited financial statements in the City's FY18 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 FY18 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 Cover

Pictured on the cover is the new Raleigh Union Station, located downtown at Martin Street. Raleigh Union Station was designed as an urban transport center that will better accommodate current and future demands for rail, buses, taxis, bicycles, and other forms of transportation services. Please refer to the Spotlight article starting on pg. 16 for more information.

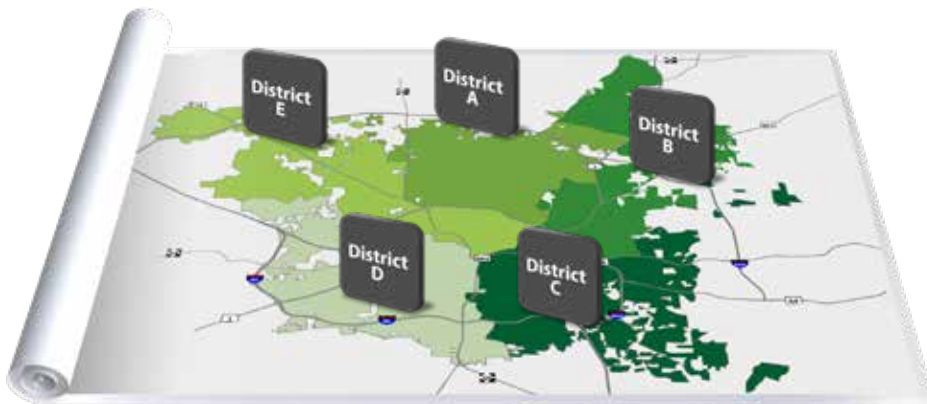
GFOA Award

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 2018




Front row:

Nicole Stewart, Nancy McFarlane,
Kay Crowder, Stef Mendell

Back row:

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

Nancy McFarlane	Mayor
Russ Stephenson	At Large
Nicole Stewart	At Large
Richard "Dickie" Thompson	District A
David Cox	District B
Corey Branch	District C
Kay Crowder	District D
Stef Mendell	District E



"the City highly values the quality of service that you receive, and strategically applies resources to serve the needs of the City and its citizens"

Leadership | From the City Manager

Dear Readers:

Raleigh prides itself on its comprehensive and quality services, which are provided while maintaining a sound financial position. The recent Community Survey showed residents have a very positive perception of the City. The survey also identified the community's top priorities and service areas, and in response, FY18 initiatives sought to invest directly in the City's continued management for growth, traffic flow, public safety, stormwater management, and citizen engagement. In FY18, the City also continued implementation of significant compensation policy and structure changes. The City aims to remain competitive and further attract and retain a talented workforce to address customer service needs for the growing City. Factoring all priorities this year, the City balanced a budget that ultimately ensured long-term financial sustainability at standards consistent with our AAA credit rating. We achieved FY18 goals and are pleased to report to you that the City's fiscal health remains strong.

During FY18, 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 the City highly values the quality of service that you receive, and strategically applies resources to serve the needs of the City and its citizens. We also strive to support the equity of cost for future generations, maintaining moderate debt levels and by actuarially funding key future costs related to our pension and healthcare obligations.

On pg. 16-19 of this year's Citizens' Annual Financial Report, we are highlighting the opening of Raleigh Union Station. The completion of this project marks another long-term investment and provides for a multimodal transit center that helps manage the growth of the City and surrounding community. Raleigh Union Station provides commuter rail enhancements, serves as an economic driver to bring more business to the area, and offers opportunities for transportation improvements.

I certainly hope that you enjoy and find useful the FY18 Citizens' Annual Financial Report.

Sincerely |



Ruffin L. Hall | **City Manager**



"the City
prides itself on
maintaining a
strong financial
management
program"

From the Chief Financial Officer

To Our Citizens:

An important element of our financial mission at the City of Raleigh is to be accountable to our citizens and ensure transparency in reporting of financial results and information. The Citizens' Annual Financial Report is designed to provide financial data in a user friendly and understandable manner. This report utilizes the Comprehensive Annual Financial Report (CAFR), which is available to you on the City's website, www.raleighnc.gov. The CAFR captures detailed financial statements, notes, and other schedules that provide valuable information on our finances. The CAFR is audited each year by an independent certified public accounting firm, and is presented to City Council to assist them in making informed decisions for future City needs and spending.

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 a 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.

The City of Raleigh has received awards from the Government Finance Officers Association (GFOA) for excellence in financial reporting. In addition, the City prides itself on maintaining a strong financial management program, which ensures a strong credit rating.

Thank you for your support as we seek to maintain a high standard of service. We hope you find the FY18 Citizens' Annual Financial Report helpful and use it as a tool to understand City of Raleigh financial operations.

Sincerely |  Allison E. Bradsher | **Chief Financial Officer**





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. The City of Raleigh is the level of government that touches your daily lives the most, including providing public safety, regulating quality of housing and construction, maintaining parks and recreational facilities, ensuring high quality utilities such as solid waste services and water and sewer availability, paving roads, managing transit options, and hosting convention and performing arts events. 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 future financial needs in various ways, including financial analyses, a 5-year capital improvement plan, long range studies and multiple business models.

Financial standards

Comparable 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 necessary infrastructure impacting citizen's daily lives, such as parks and roads. The City's general credit ratings from the three national credit rating agencies – Moody's, Standard & Poor's, and Fitch - are all AAA/Aaa. This represents the highest credit ratings available and enables the City to borrow at the lowest rates possible.

Saving and investing for the future

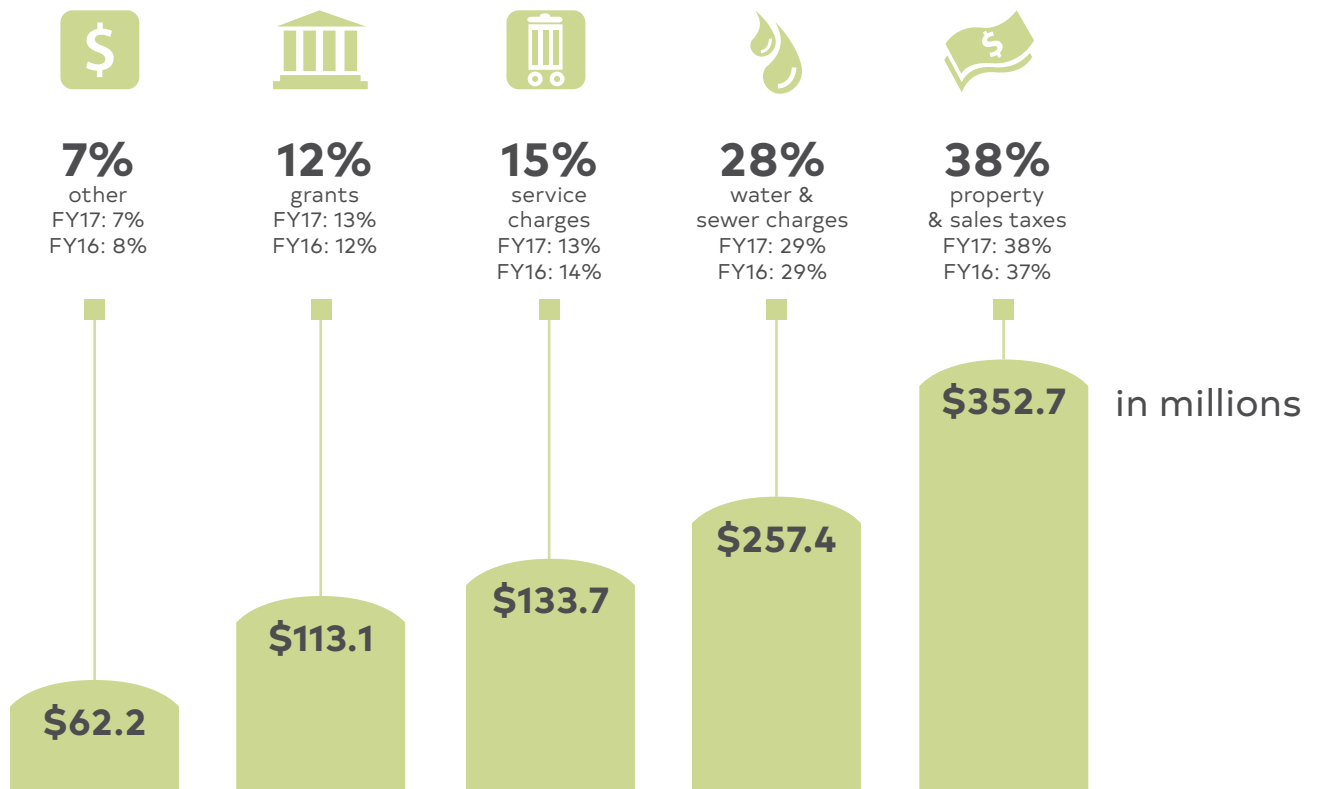
Similar to your personal budget, ensuring savings for the future is an important aspect of our financial stewardship. The Raleigh City Council has approved a policy that the City maintain a "savings" in its General Fund of 14% of the subsequent year's budget. The City ensures an adequate level of savings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

Sources | City Funds

The City's largest revenues are property and sales taxes. These taxes predominately fund basic government services, including investments in public safety, public infrastructure, and leisure services. Water and sewer charges are the second largest category of revenue and are reflective of approved rates for the utility system. The utility system uses financial planning tools to project operational and infrastructure needs. Service charges capture such activities as solid waste pickup and transit passenger fees, which 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, housing development projects and community outreach. Additional revenue sources, listed as "other," include interest income and prior year savings. Revenue sources remained relatively consistent year over year, which was expected. A three-year trend analysis of the City's sources of funds, included below, indicates that the sources of funding have not materially changed.

FISCAL YEAR 2018 (FY18) ADOPTED BUDGET

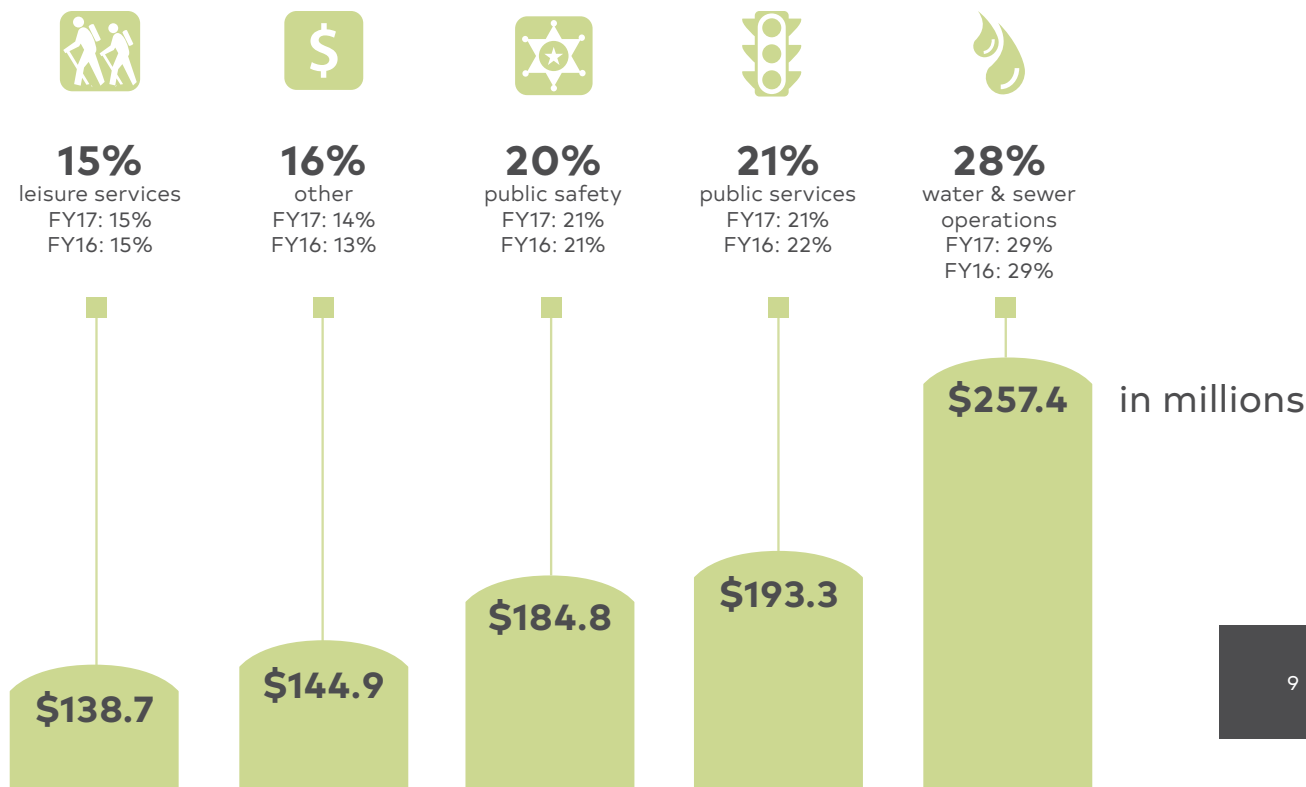
FY18 City-wide Adopted Operating and Capital budgets total \$919.1 million. The categories shown highlight the sources (revenues) and uses (expenses) as a percentage of the total for ease of understanding. **Budget priorities for FY18** were aligned to the City's Strategic Plan. A few of the top initiatives are included to 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, and budgeted resources in FY18 continued to focus on strategic spending for infrastructure improvement projects. Public services include a wide variety of work efforts such as inspections, planning, and multiple business type activities like transit and solid waste. Public services is the second largest budget category, and expenses are partially funded by user charges. Public safety captures expenditures for fire, police and emergency communication operations, which are funded predominately by general tax revenues. The City continues to invest in emergency responders to maintain the safety of our growing service area. 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, like housing assistance for example. City departments continue to be diligent and focus on expense management. Expenses and general uses of City funds remained relatively consistent year over year. As shown below, the uses of City funds have not materially changed over a three-year period.

- Provide citizens with a safe community and high quality of life
- Broaden citizen engagement efforts and involvement in decision making
- Ensure long-term financial sustainability and financial strength
- Manage growth through investment in development services
- Invest in existing and new infrastructure initiatives
- Invest in human capital to recruit and retain our outstanding workforce



FY18 | Governmental Results

The Governmental activities section in the City's financial statements includes programs normally supported by taxes and allocations or grants from federal and state governments. In comparison, the City's Enterprise activities, described on pg. 12, are mainly funded by user charges. Governmental revenue sources cover various services, including: public safety efforts such as Fire, Police, and Emergency Communications; 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 activities that support general infrastructure across the City.

Balance sheet

Amounts in millions	FY18	FY17	Change
Assets	\$ 1,908	\$ 1,889	\$ 19
Deferred Outflows of Resources	51	65	(14)
Liabilities	(931)	(866)	(65)
Deferred Inflows of Resources	(49)	(10)	(39)
Net Position	\$ 979	\$ 1,078	\$ (99)

A **balance sheet** provides a snapshot of what the City currently owns (assets) and owes (liabilities), as well as sources (deferred inflows) and uses (deferred outflows) that will be recognized in another year. **Net position** represents the City's investment in the assets it uses in providing services to its citizens.

Net position is a snapshot of the overall financial condition of the City and is comprised of capital assets, restricted funds for needs such as debt, and unrestricted amounts available to support ongoing operations. The majority (or 71%) of the City's \$979 million net position represents our investment in capital assets, such as land, buildings and other infrastructure that are used to provide services to our citizens. As shown above, the City's change in net position decreased by \$99 million as a direct result of a required restatement to comply with the adoption of a new accounting standard. The restatement had no impact to the City's long-term funding strategy.

Income statement

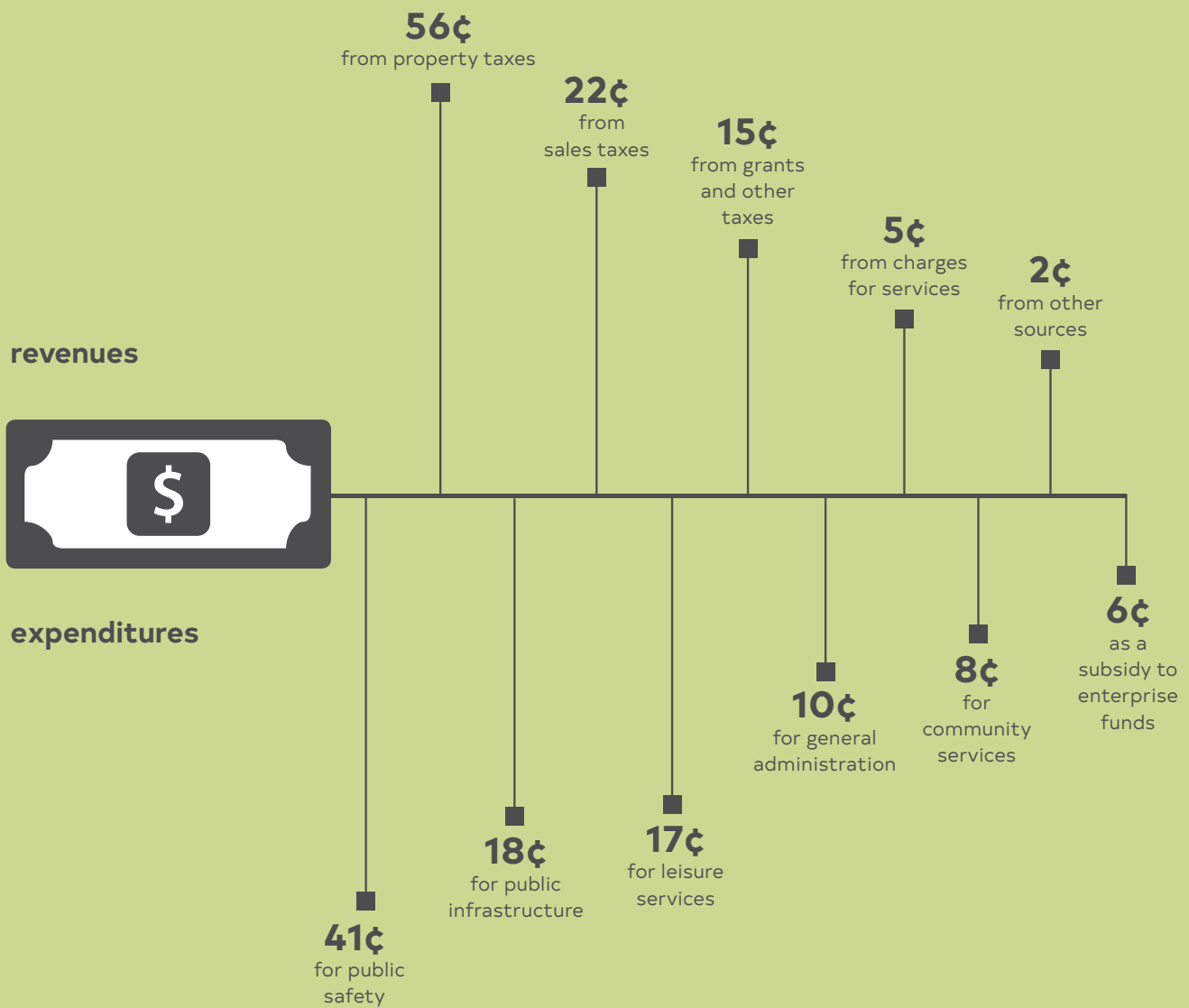
Amounts in millions	FY18	FY17	Change
Revenues	\$ 541	\$ 521	\$ 20
Expenses	(410)	(401)	(9)
Transfers In (Out)	(51)	(55)	4
Gain on Sale of Property	4	4	-
Capital Contribution	-	(3)	3
Change in Net Position	84	66	18
Restatements	(183)	(40)	(143)
Change in Net Position, Restated	\$ (99)	\$ 26	\$ (125)

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.

The year over year revenue increase for the City's governmental activities was driven primarily by growth associated with property and sales tax receipts, which corresponds to strong economic factors and continued development within the City. While the City remains focused on diligent management of expenses and efforts to keep costs low, there was an increase in operating expenses year over year as a result of the City's continued investment in the workforce. Restatements presented in both years reflect the implementation of required new regulatory guidance. The results are in line with expectations.

FY18 | General Fund Results

This page highlights the FY18 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 78 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 (City Planning, Inspections, and Roadways) at 18 cents. The City's revenues and expenditures are similar to prior year and met expectations as compared to budget.



FY18 | Enterprise Results

Enterprise activities rely heavily on fees charged to customers whom benefit from the services provided. The City manages six operations as Enterprise activities: Water and Sewer, Convention Center Complex, Public Transit, Stormwater, Parking, and Solid Waste Services.

Balance sheet

Amounts in millions	FY18	FY17	Change
Assets	\$ 2,572	\$ 2,519	\$ 53
Deferred Outflows of Resources	80	106	(26)
Liabilities	(1,306)	(1,332)	26
Deferred Inflows of Resources	(19)	(5)	(14)
Net Position	\$ 1,327	\$ 1,288	\$ 39

A **balance sheet** provides a snapshot of what the City currently owns (assets) and owes (liabilities), as well as sources (deferred inflows) and uses (deferred outflows) that will be recognized in another year. **Net position** represents the City's investment in the assets it uses in providing services to its citizens.

Net position is a snapshot of the overall financial condition of the City and is comprised of capital assets, restricted funds for needs such as debt, and unrestricted amounts available to support ongoing operations. Over 71% of the enterprise net position represents an investment in capital assets. The largest types are water and sewer treatment plants and supporting infrastructure lines. As shown above, the City's change in net position for enterprise funds increased by \$39 million, even after the restatement impacts referenced on pg. 10. The increase in net position from normal operations continues to demonstrate strength in our fiscal stability, the growth of the City, and improved economic conditions.

Income statement

Amounts in millions	FY18	FY17	Change
Revenues	\$ 366	\$ 353	\$ 13
Expenses	(310)	(296)	(14)
Transfers In (Out)	51	55	(4)
Capital Contribution	-	3	(3)
Change in Net Position	107	115	(8)
Restatement	(68)	-	(68)
Change in Net Position, Restated	\$ 39	\$ 115	\$ (76)

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.

The year over year revenue increase for the City's enterprise activities was driven primarily by Water and Sewer fund infrastructure fees and rate changes associated with financial projection models. Financial models are used to ensure charges are adequate to cover current and future costs associated with growth and ongoing replacement of infrastructure. The Parking fund and Stormwater fund revenues were also higher in FY18, due to continued demand and growth of operations within the City. The City's expenses increased over the prior year, yet fell within budgeted levels as we maintain service levels in line with the City's continued growth. The results are in line with expectations.

FY18 | 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 2018-22 may be found at:

<http://www.raleighnc.gov/content/extra/Books/BudgetManagement/FY2018CIP/>

During FY18, the City completed a number of projects previously budgeted in the City's Capital Improvement Plan, including the following:

Public Utilities and Stormwater Projects

- Required improvements to the EM Johnson Water Treatment Plant and the Walnut Creek Lift Station, as well as other improvement projects to protect the usable water and watersheds in Raleigh and merger communities.
- Several drainage system projects and lake and stream restoration improvements were made to allow for the continuous flow of stormwater to reduce runoff and improve water quality within the City.

Other Infrastructure Projects

- Facility improvements and renovations, such as those at Moore Square Transit Station and many streets and parks and recreational projects were completed for public use and enjoyment throughout the City.
- Raleigh Union Station will accommodate current and future demand for intercity rail, bus, taxi, bicycle, and other transportation services within downtown and neighboring communities.
- Fire station projects and strategic equipment replacements were made to ensure continued dedication to responsive public safety efforts.

In addition, the FY18 Plan budgeted for new or continuing capital projects consistent with the City's strategic plan and comprehensive plan ranging from investments in long-term transportation needs, capital maintenance and renovations to park sites and facilities, and to staying abreast of technology needs for years to come.



FY18 | 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 55% of the City's total debt portfolio is paid for by business-type user charges, while 45% of the City's debt is paid for by general governmental revenues.

Governmental

General Government outstanding debt totals \$559.3 million, a decline over prior year, and is used to support projects such as parks, new facilities and streets. The City has the ability to take on \$305.4 million for future debt needs that would support transportation and parks and recreation infrastructure projects.

The City did not complete any governmental debt issuances during FY18.

12.3% - FY18 actual debt payments compared to General Fund budget. City policy allows for a maximum of 15.0%

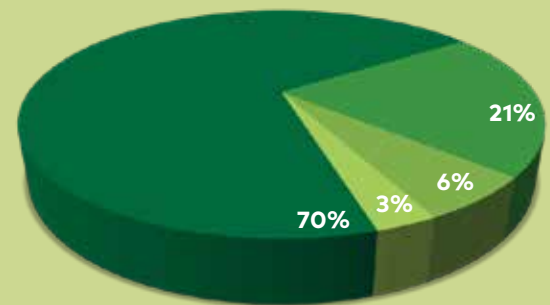
Business-type activities

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 \$1.1 billion.

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

The City did not complete any business-type debt issuances during FY18.

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



- Public Utilities
- Convention Center Complex
- Parking
- Other Enterprise Operations

Debt management

The City's Treasury Division is dedicated to ensuring proper debt management for future City planning needs.

More detailed schedules specifically on City debt can be found in the FY18 CAFR.

FY18 | 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:

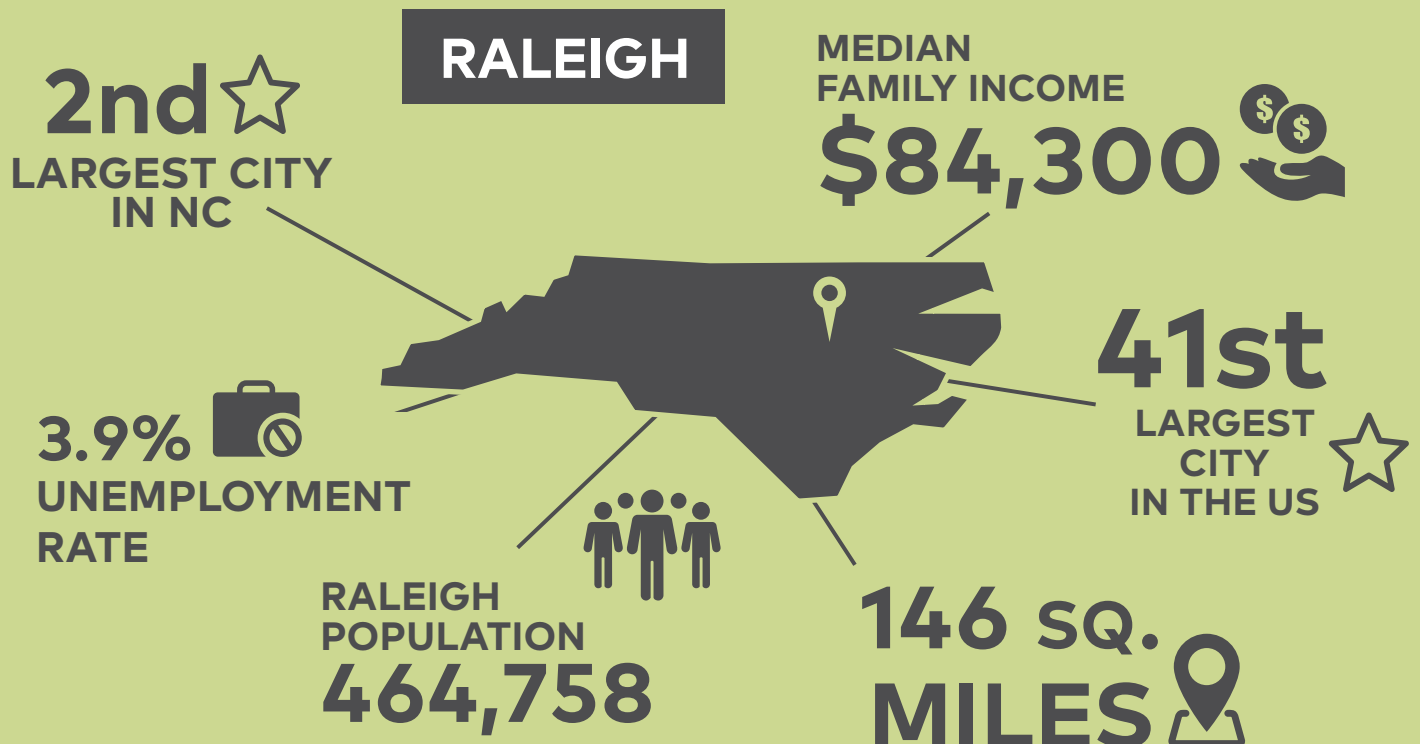
- Among Top 10 Best Cities for New Grads Starting Out (May 2018, MarketWatch)
- City Museums Among Top NC Tourist Attractions (March 2018, Carolina Publishing Associates)
- 6th on list of Top State Capitals to Live In (February 2018, WalletHub)
- Among Top 10 Coolest Places to Eat (January 2018, Forbes)
- 2nd Most Educated City in the Country (October 2017, Forbes)
- 4th Best City for Jobs in the U.S. (September 2017, Glassdoor)

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 Med Health and Hospitals
- North Carolina State University
- Wake County Public School System
- UNC Rex Healthcare
- City of Raleigh
- Wake County Government
- N.C. DHHS
- Duke Energy Progress
- Wake Technical Community College





Spotlight on RALEIGH UNION STATION

The City held a ribbon cutting ceremony on April 30, 2018 to celebrate the opening of the new Raleigh Union Station (RUS), a 26,000-square foot vibrant urban multimodal transportation center. RUS is one of the latest projects in downtown aimed at preserving the City's history while constructing for the future needs of Raleigh. It was built in the former Dillon Supply Viaduct building in the downtown's Warehouse District. The project was developed to replace the old Amtrak Station whose size and location no longer supported current ridership demand or expected growth. RUS better accommodates current and future demand for intercity passenger and commuter rails, buses, taxis, bicycles and other forms of transportation services within downtown Raleigh and neighboring communities. In addition, the tracks built to serve the station are for passenger trains only, therefore trains carrying freight are free to bypass the station without delays. The City is excited to provide these transportation services and is thrilled with the new experience and transportation options the station will provide for customers and visitors.

Timeline and Funding

The City partnered with the Federal Railroad Administration, the North Carolina Department of Transportation, GoTriangle, and numerous other stakeholders in developing and executing the vision of RUS located at Martin Street. Total project costs were \$88.8M, with another \$21.6M set aside for ancillary costs such as congestion mitigation. Funding for the project was largely made possible through federal and state grants, as well as City and other partnership contributions. The City's contribution towards this project is \$25M.

The City's Transportation Planning, Engineering Services, Construction Management and Urban Design Center, and North Carolina DOT by Rail teams all took part in overseeing planning and construction work efforts. From 2013 to 2015, RUS planning, track design, environmental and right of way studies, and public input took place. The construction for RUS began in January 2016. A majority of the station's construction was complete by May 2018, with final attention to the passenger platform addressed in June 2018. With

enthusiastic anticipation from all those involved in the multi-year project, Amtrak trains finally transitioned to the new downtown station. The inaugural trip was conducted and passengers boarded the Piedmont train leaving RUS between Raleigh and Charlotte for the first time.

Information for Travelers

With the opening of RUS, Amtrak expanded train service to include an additional nonstop route to Charlotte while also maintaining stops in Durham, Burlington, Greensboro, High Point, Salisbury, and Kannapolis. The new station also serves Amtrak's long-distance Silver Star line, providing services between New York and Florida. RUS will also eventually serve as a multimodal transit center connecting riders to other forms of transit, such as access to local and regional buses and bike options. Offering this level of service will address congestion and land development concerns, while also providing a transportation hub that will continue to revitalize downtown Raleigh and its Warehouse District.

Those traveling for work, vacation, in town for a festival or other cultural event, can enjoy some of the following features of the new RUS Station:

- sustainable design – LEED Silver constructed building and campus
- larger waiting room and better amenities for Amtrak passengers
- grand Civic Hall for large public events
- future commercial rental space used for retail, office, or restaurants
- 920-linear-foot-long center island passenger platform that is ADA compliant provides level-boarding and easier access for wheelchairs and strollers
- tactile wayfinding for the sight impaired
- enclosed concourse between the station and platform that protects from weather
- sustainable features and designs, including use of natural light and roof gardens
- large public plaza and urban gathering space near the intersection of West St. and Martin St
- 3rd floor patio provides a wonderful skyline view of downtown
- convenient passenger drop-off areas adjoining the station
- ample short and long-term parking





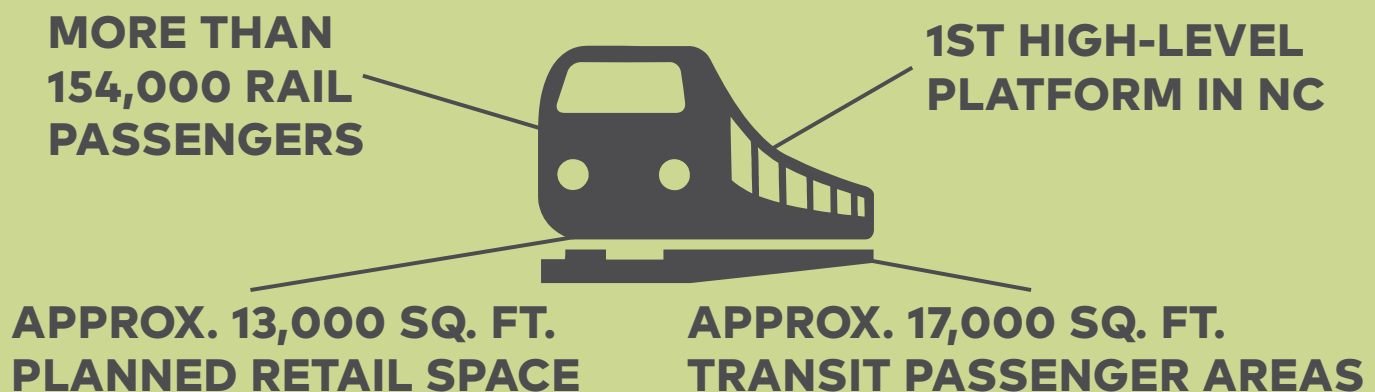
Preserving the Past, Planning for the Future

A unique aspect of RUS design is that over 80% of the structural steel used to frame the new terminal building was preserved from the old Dillon Supply Warehouse. Artistic metal sheets adorning the concourse, the original concrete footing from the industrial building, two gantries overhead used to move steel, and a big sliding steel door on the back wall were all also preserved to provide a visual connection between the original building's history and its current function.

In addition to connecting the history of the building with new construction of rail services for Raleigh and the surrounding communities, the RUS design also incorporated modern elements to include more than 14,000 square feet of space on three levels for offices, retail shops and restaurants, plus indoor and outdoor space for civic events. The City is currently exploring lease options and lease revenues are planned to support current operations. The station is designed for significant future expansion that will continue to drive new visitors to the station. A second island platform and third track, along the Norfolk Southern H-Line are planned to serve the under-development Durham-Wake commuter rail line, and there are other anticipated expansions for a northern concourse and station track for the future Southeast High-Speed Rail Corridor to service trips towards Virginia and DC. The future RUS Bus facility will be a further expansion to provide for more efficient bus travel, with off-street and on-street components, structured parking, and other developments that will be critical steps for supporting local and regional transit service.

Based upon studies regarding the economic impacts from construction of private transit-oriented development (TOD), the RUS project as a whole had the potential to create over 44,500 short-term and indirect jobs over a 10-year period. Projections throughout the lifespan of the project estimated this local economic impact to generate over \$1.2 billion in salaries and an additional \$5.5 million in indirect benefits for the local economy. The desire to revitalize the historically-industrial district into a more vibrant, walkable, and holistic area is clearly demonstrated in the dedication of public resources and private investment towards the RUS project and serves as a display of value to residents and visitors alike.

By The Numbers





Raleigh

CITY OF RALEIGH

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