

Citizens' Annual Financial Report

FISCAL YEAR ENDING JUNE 30, 2020

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Report Overview

The fiscal year 2020 (FY20) Citizens' Annual Financial Report provides citizens and other interested parties with a user-friendly overview of the City's financial results and is produced to increase awareness of the City's fiscal operations. The report also provides accolades, long-term planning initiatives and other City data that may be of interest to the reader. The financial information is obtained from the audited financial statements of the City's FY20 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). The summarized version of this report highlights the overall financial position and trends of the City. The FY20 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 <https://raleighnc.gov/services/government/comprehensive-annual-financial-report-cafr>.

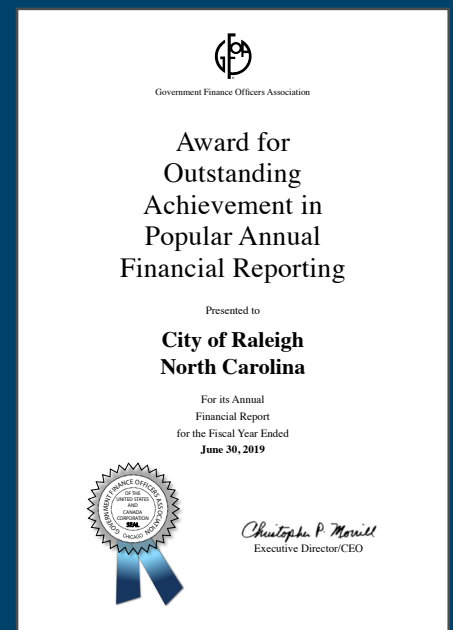
About the Cover and Spotlight Article

The City's employees and departments continue to be here for the community as we all find safe ways to navigate through the global pandemic together.

Another way that the City aims to better serve the community is by seeking external grant opportunities to leverage resources as we make a positive impact within the community. The City of Raleigh's External Grants Management program is featured in our Spotlight article starting on page 16.

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 | 2020



Mary-Ann Baldwin
MAYOR



Nicole Stewart
AT LARGE



Jonathan Melton
AT LARGE



Patrick Buffkin
DISTRICT A



David Cox
DISTRICT B



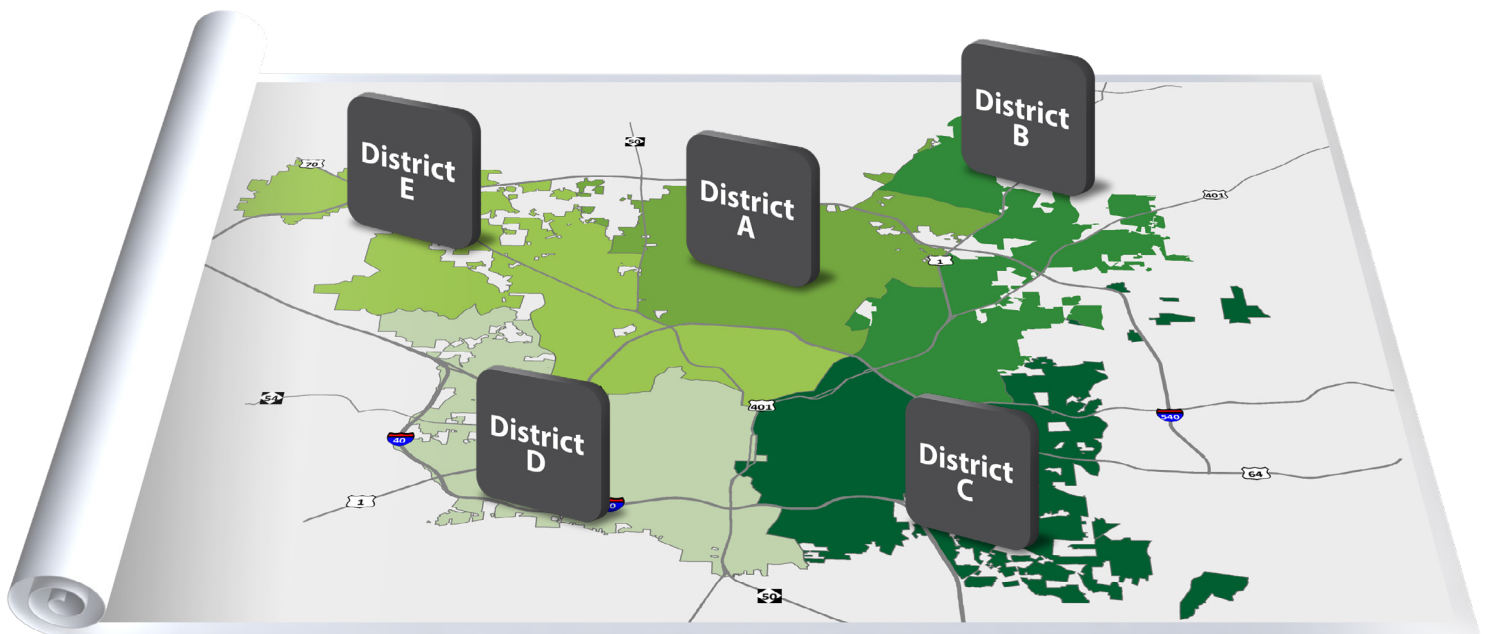
Corey D. Branch
DISTRICT C




Stormie Forte
DISTRICT D



David Knight
DISTRICT E





"Raleigh is
well positioned
to weather the
pandemic"

Leadership | From the City Manager

Dear Readers:

The City highly values the quality of service that you receive, and strategically applies resources to serve the needs of the City, citizens, and visitors. The FY20 fiscal year was impacted by the onset of the global pandemic in March. Despite the ongoing global pandemic and financial crisis, which continues to impact world economies, Raleigh continues to attract businesses and people to the area. This is due in large part to the varied business environment, nationally ranked universities and outstanding healthcare facilities. Raleigh is not alone in facing challenges due to the pandemic, and has prioritized maintaining its greatest asset, the City's workforce, thus minimizing reductions to mission critical services and where possible continuing to advance established priorities.

The City was experiencing many positive trends during FY20 prior to the onset of the pandemic, such as growth of key general taxes and business-type revenues. The City took immediate actions when the pandemic began, and as a result, the financial impacts for the year ending June 30, 2020 were mitigated and results remained strong overall. The City has a robust internal control system as well as a strong debt credit rating that bolster the financial picture of the City. Raleigh and the surrounding region have many positive economic trends, which indicate Raleigh is well positioned to weather the pandemic while maintaining its high level of service to the community.


The City actively applies for federal, state, and local funding to further leverage resources and prioritize strategic projects. On pages 16-17 of this year's Citizens' Annual Financial Report, we highlight our external grants program. With economic conditions remaining uncertain, the City's policies and practices relating to external grants will enable the City to continue to meet the needs of the community.

I certainly hope that you enjoy and find useful the FY20 Citizens' Annual Financial Report.

Sincerely |



Ruffin L. Hall | City Manager



"A **strong**
internal control
system ensures
appropriate
checks and
balances exist"

From the Chief Financial Officer

To Our Citizens:

Raleigh's city government includes over 5,000 full and part-time employees operating in many diverse roles that provide services to citizens and visitors in our growing city. Even as a large municipality, 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 a goal of explaining key financial objectives for the City in a similar context to your own finances.

The City continued its mission of being accountable and transparent to its citizens, while engaging in sound fiscal stewardship even with the onset of the global pandemic in FY20. Our strong internal control system ensures appropriate checks and balances exist. The City was proactive in managing the financial impacts associated with the pandemic and were able to meet or exceed our financial policies as well as continue the commitment to fund long-term liabilities. In addition, the City was able to maintain its strong AAA credit ratings. Each of these key components ensure the City's fiscal position remains strong.

The Citizens' Annual Financial Report is the communication tool to provide citizens with the City's financial story 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 provides detailed financial statements, notes, and other schedules that provide valuable information on the City's finances. The CAFR is audited each year by an independent certified public accounting firm and is presented to City Council to ensure transparency.

The City of Raleigh has received numerous awards from the Government Finance Officers Association (GFOA) for excellence in financial reporting. Thank you for your support as we seek to maintain a high standard of service. We hope you find the Citizens' Annual Financial Report helpful and use it as a tool to understand Raleigh's financial operations.

Sincerely |



Allison E. Bradsher | Chief Financial Officer

The City of Raleigh is both the county seat of Wake County and the capital of North Carolina. Known as the "City of Oaks" for its treelined streets, Raleigh is situated in the heart of North Carolina's Piedmont region. Fueled by an impressive mix of education, ingenuity and collaboration, Raleigh is an internationally recognized leader in life science and technology innovation. Raleigh also happens to be a really great place to live.





The City of Raleigh | Everyone's Household

The City of Raleigh is the level of government that touches the daily lives of citizens the most. The City provides a full range of governmental services, including public safety, regulating quality of housing and construction, paving roads, solid waste management, water and sewer services, providing public transit and parking options, maintaining parks and recreational facilities, and hosting convention and performing arts events. These services are provided to ensure Raleigh remains one of the top places to live, work and play. During the past 30 years, growth in Raleigh and the surrounding Research Triangle Region has consistently and significantly outpaced the nation, further driving the City to strategically invest in its financial sustainability well into the future. The City applies the same financial fundamentals to the management of the City's finances that apply to individual households. Highlighted below are a few of the ways the City's financial management practices ensure a strong financial position.

Budget and planning

The City plans for its future financial needs in various ways, including financial analyses, a 5-year capital improvement plan (CIP), long-term studies and business models. Much like the average citizen, the City uses a balanced budget to ensure that it maintains a healthy financial position and uses its resources effectively. North Carolina law requires local governments to approve a balanced budget each year. The City's annual budget process includes a review of current economic conditions to develop a fiscally sound funding plan that ensures revenues are sufficient to cover operational needs for each department. The proposed budget is presented in May to City Council, who approves the final budget document on or prior to the start of the fiscal year July 1.

The City's annual Operating and CIP budgets are located on the City's website at <https://raleighnc.gov/services/grants-and-funding/current-city-budget>.

Financial standards

Comparable to a household's need to borrow for a house or car, the City has taken on moderate debt levels to provide necessary infrastructure impacting citizen's daily lives, such as streets and parks. The City's credit rating from the three primary national credit rating agencies – Moody's Investors Service, S&P Global and Fitch Ratings - are all AAA/Aaa. This represents the highest credit ratings possible and provides an independent view of the City's overall financial well-being. Details summarizing FY20 City debt activities are captured on page 14 of this report.

Saving and investing for the future

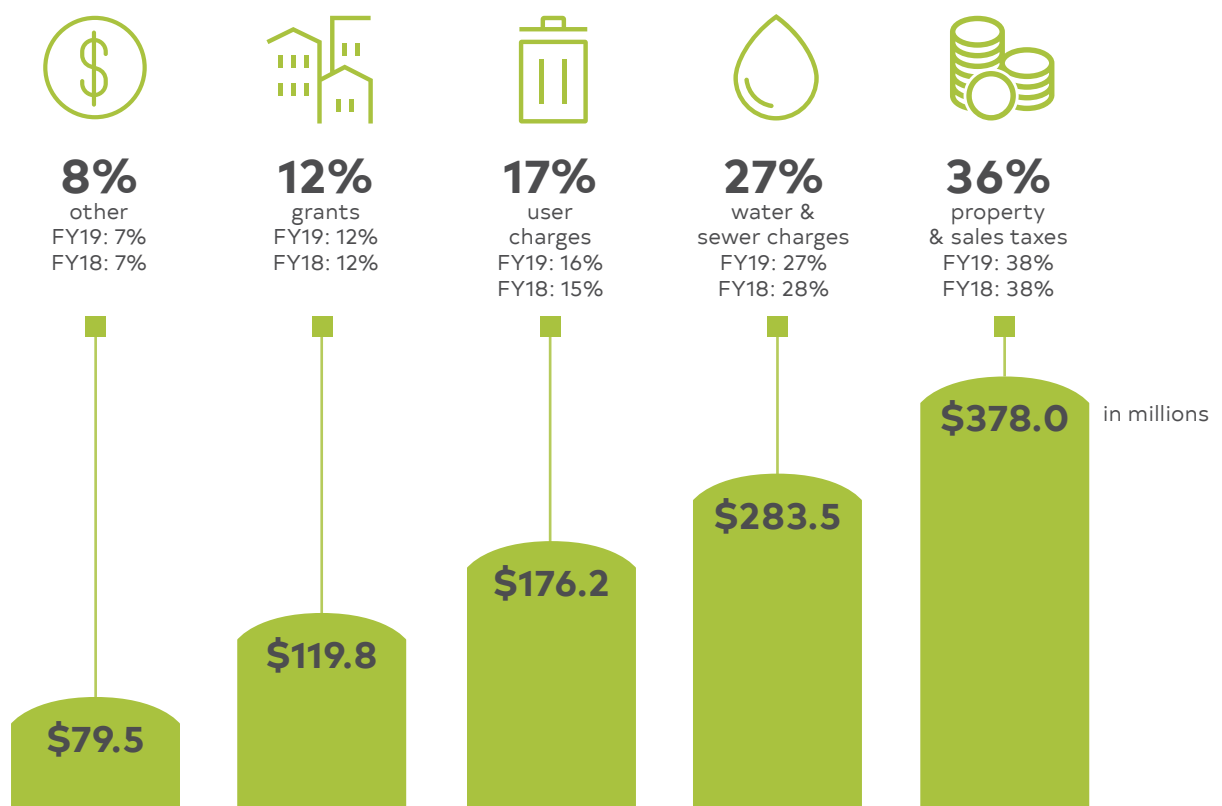
Saving for the future is an important aspect of the City's financial stewardship, similar to your own household budget planning. The City utilizes various policies and guidelines, models, and fiscal analyses that enable management to address short-term as well as plan for our long-term financial needs. Collectively, these financial tools allow City Council and City Management to make informed decisions regarding future investments within our growing community, while also maintaining an adequate level of savings.

Sources | City Funds

The City has various funding sources that provide for governmental and business-type services. The three-year trend illustrated below shows City funding sources have remained relatively consistent over time. The City's largest revenues are **property and sales taxes**. These tax collections 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 revenues and reflect City Council approved rates for the utility system consistent with long-term planning models. **User charges** capture a variety of City services, and fees are collected specifically from those who directly benefit and utilize these services. Examples include solid waste services, stormwater fees, development activities, parks and recreation fees, convention center activities, and parking and transit passenger charges. The FY20 budget included growth in user charges reflective of an approved rate increase for solid waste services. Enterprise user rates are predominately aligned to long-term business models, ensuring the City can sustain existing service levels and capital infrastructure needs. The City also receives federal and state **grants**, as well as other funding allocations from external sources that support specific initiatives, such as road repairs, parks and recreation, housing development projects and community outreach. **Other** sources include interest income and miscellaneous revenues.

FISCAL YEAR 2020 (FY20) ADOPTED BUDGET

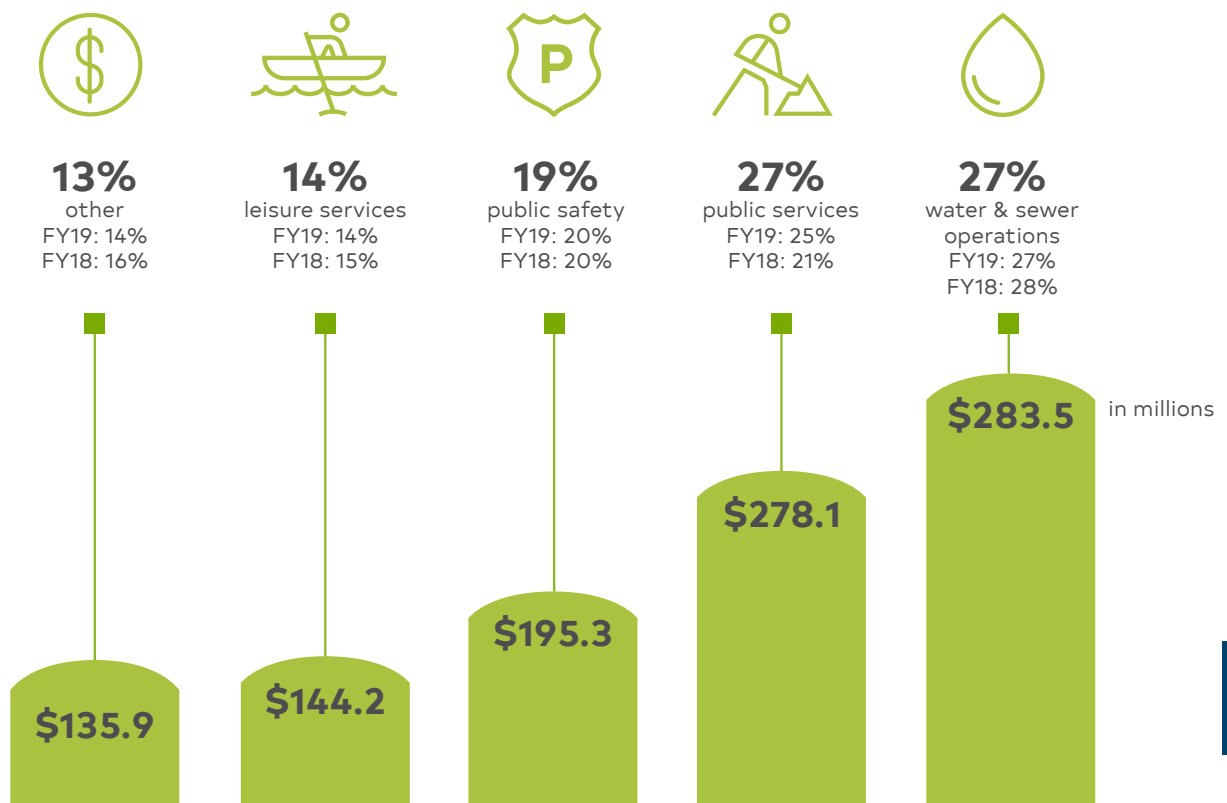
FY20 City-wide Adopted Operating and Capital budgets total \$1,037.0 million. The categories shown highlight the sources (revenues) and uses (expenses) as a percentage of the total. **Budget priorities for FY20** were aligned to the City's Strategic Plan. A few of the top initiatives are included to the right:



Uses | City Funds

The City provides many comprehensive services to our citizens. The three-year trend illustrated below displays how the City's budgeted funding uses have remained relatively consistent over time. **Water and sewer operations** represent the largest budgeted category for the City with a focus on clean drinking water and effective wastewater services, which protect the environment and public health. **Public services** capture a wide variety of work efforts, including solid waste services, stormwater, development activities, parking and public transit. Public services budgeted uses increased year over year, reflecting the City's FY20 strategic investment in capital improvements and infrastructure management. **Public safety** accounts for expenditures for fire, police and emergency communication operations, which are funded predominately by general tax revenues. The City's support of public safety initiatives provides for the continued safety of our growing service area. **Leisure services** include parks, recreation and cultural resources, as well as the Convention Center Complex where citizens and visitors enjoy amenities and cultural programs. Additional uses listed as **other** include internal service organizations, various housing assistance and other community initiatives.

- Invest in public safety initiatives, including vehicles and stations
- Broaden citizen engagement and expand communication tools
- Ensure long-term financial sustainability and financial strength
- Manage growth through investment in various infrastructure initiatives
- Increase community outreach and affordable housing availability
- Maintain parks and greenways, and expand service levels and programming at facilities
- Foster a diverse local economy through partnerships and innovation
- Invest in our employees to provide high quality, responsive, and innovative services



FY20 | Governmental Activities

The Governmental activities section in the City's financial statements includes programs predominately supported by taxes, federal and state grants, and other special funding allocations. In comparison, the City's Business-type activities, described on page 12, are funded by user charges. Governmental revenue sources cover various services, including public safety efforts for fire, police, and emergency communications; parks, recreation and cultural resources initiatives; infrastructure management; planning and neighborhoods; and general government administration. Governmental activities also include revenue sources from grant-funded programs and capital project activities that support infrastructure across the City.

Balance sheet

Amounts in millions	FY20	FY19	Change
Assets	\$ 2,032	\$ 1,961	\$ 71
Deferred Outflows of Resources	79	80	(1)
Liabilities	(963)	(919)	(44)
Deferred Inflows of Resources	(42)	(51)	9
Net Position	\$ 1,106	\$ 1,071	\$ 35

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 future years. **Net position** represents the City's investment in the assets it uses in providing services to its citizens. Increases in net position serve as a useful indicator of the strength of the City's financial position.

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 commitments, and the remaining component is unrestricted and available to support ongoing operations. The majority (or 68%) of the City's \$1,106 million net position represents our investment in capital assets, including land, buildings and other infrastructure that are used to provide services to citizens. As shown in the tables, the City's change in net position increased by \$35 million. The City's continued investment in capital assets, moderate growth in certain revenues, and diligent monitoring of expenditures yielded positive impacts to results.

Income statement

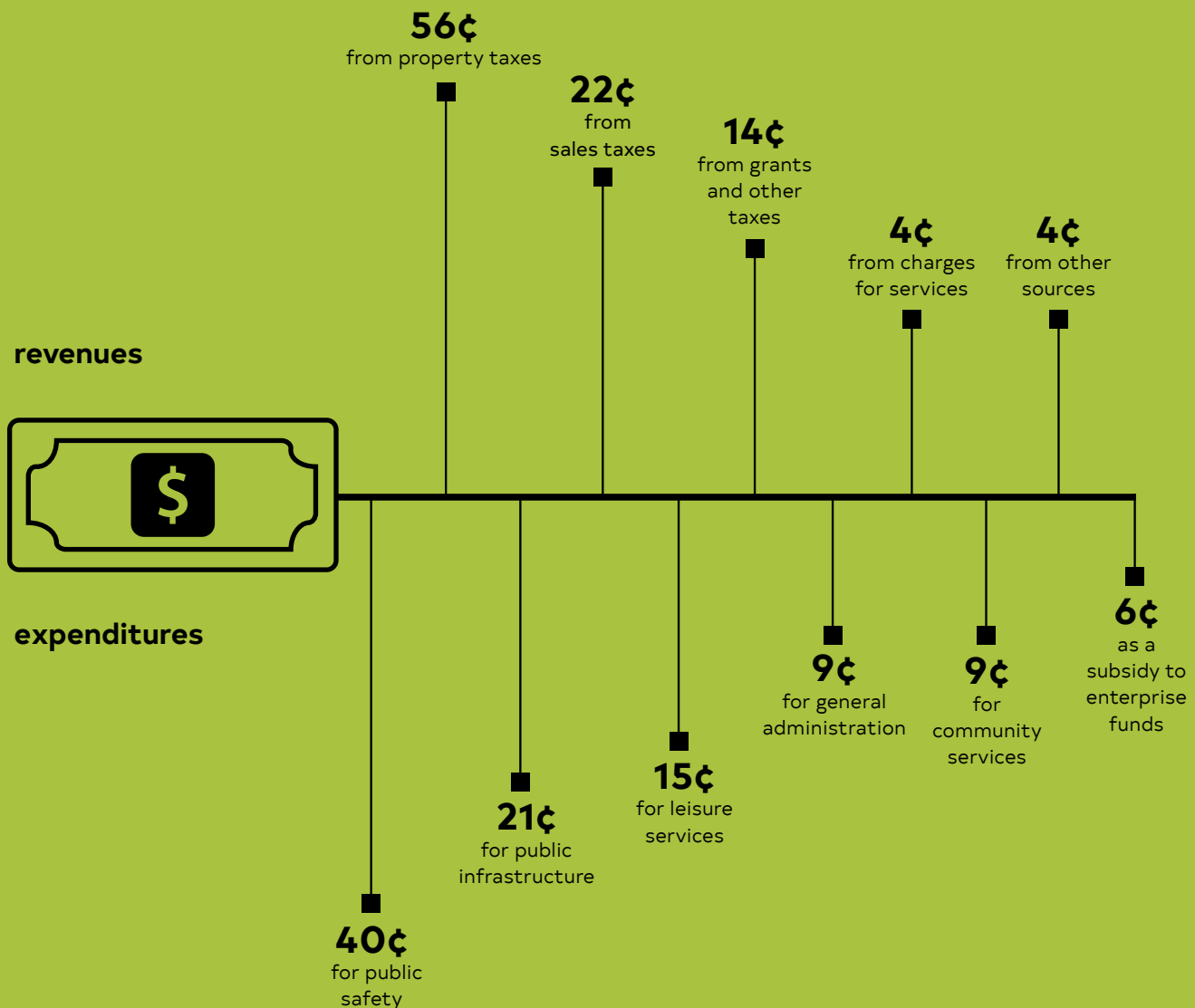
Amounts in millions	FY20	FY19	Change
Revenues	\$ 562	\$ 574	\$ (12)
Expenses	(459)	(427)	(32)
Transfers In (Out)	(68)	(55)	(13)
Change in Net Position	\$ 35	\$ 92	\$ (57)

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 the ability to save for the future.

The FY20 revenue decline in the City's governmental activities was driven primarily by a reduction of federal and state operating and capital grant revenues, as well as hospitality taxes. As noted in the introductory pages, the City continues to apply for more grant opportunities. The City maintains a focus on expense management to ensure mission-critical services and initiatives. The year over year expense increase reflects costs invested in the City's priority capital projects.

FY20 | General Fund Results

The General Fund is the City's main operating fund supporting key operations such as public safety, public infrastructure and leisure services. This page displays FY20 actual results in cents to provide an easy to understand illustration of General Fund revenue sources and expenditure uses. **Property taxes** and **sales taxes** are the two largest sources of General Fund 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 40 cents, followed by **public infrastructure** (city planning, inspections, and roadways) at 21 cents. The City's General Fund revenues and expenditures allocation is similar to the prior year, and results met expectations in FY20 when compared to budget.



FY20 | Business-Type Activities

Business-type activities encompass the City's enterprise fund operations. The City manages six enterprises: Raleigh Water, Convention Center Complex, Public Transit, Stormwater, Parking, and Solid Waste Services. These business-type operations are primarily funded by fees charged to customers who directly benefit from the services provided.

Balance sheet

Amounts in millions	FY20	FY19	Change
Assets	\$ 2,791	\$ 2,671	\$ 120
Deferred Outflows of Resources	106	100	6
Liabilities	(1,278)	(1,293)	15
Deferred Inflows of Resources	(17)	(19)	2
Net Position	\$ 1,602	\$ 1,459	\$ 143

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 future years. **Net position** represents the City's investment in the assets it uses in providing services to its citizens. Increases in net position serve as a useful indicator of the strength of the City's financial position.

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 commitments, and the remaining component is unrestricted and available to support ongoing operations. Investments in capital assets are used to provide services to our citizens and represent the majority of the City's net position. The largest types of capital assets are water and sewer treatment plants and the supporting infrastructure pipelines. As shown in the tables, the City's change in net position for business-type activities increased by \$143 million. The increase in net position generated from normal operations continues to demonstrate strength in our fiscal stability as well as continued due diligence on cost measures.

Income statement

Amounts in millions	FY20	FY19	Change
Revenues	\$ 411	\$ 402	\$ 9
Expenses	(336)	(325)	(11)
Transfers In (Out)	68	55	13
Change in Net Position	\$ 143	\$ 132	\$ 11

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 the ability to save for the future.

The City experienced many positive trends and growth in business-type activities during most of FY20. The year over year revenue increase for the City's business-type activities was driven primarily by growth in customer accounts for Raleigh Water, as well as revenue growth for Solid Waste Services due to an approved rate increase on residential waste collections. Initial financial impacts from the global pandemic led to revenue declines for Convention Center Complex with the closure of facilities and cancellation of large events in accordance with the Governor's stay-at-home orders, as well as an impact to Parking revenues with reduced demand for on-street and special events parking. The City's expenses increased in FY20 and fell within budget as service levels were maintained with the City's continued growth. City management will continue to monitor the global pandemic and its impacts on enterprise operations, leveraging financial projection models for long-term planning of revenue growth compared to projected costs.

FY20 | Capital Improvement Plan

The City utilizes a multi-year Capital Improvement Plan (CIP) as one element in the City's long-term planning process. The CIP has a unique and important responsibility to outline what needs to be built now and what the City will need to build in years to come to meet community needs. Long-term studies as well as citizen input are important elements in identifying new projects and making informed decisions within the City's planning process. The CIP analyzes the City's major facility, equipment and other infrastructure needs within the context of establishing priorities, estimating available fiscal resources, and phasing the development of funded projects over the next 5 years. The entire CIP process is completed in a strategic, thoughtful, and impactful way to maximize economic development and improve quality of life in alignment with the City Council's vision. Capital project initiatives generally include buildings, land, major technology projects, infrastructure and general improvements that allow the City to develop or expand services. The CIP is approved by City Council annually as part of the adopted budget.

The five-year CIP plan may be found at:

<https://raleighnc.gov/capital-improvement-program>

During FY20, the City completed numerous projects outlined in the City's Capital Improvement Plan, including the following:

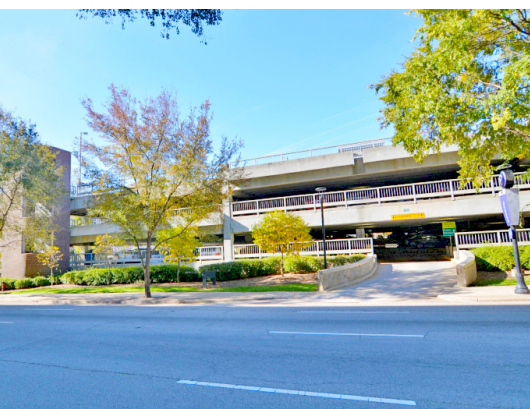
Raleigh Water and Stormwater Projects:

- Facility improvements, including telemetry upgrades and hazardous storage, as well as meter replacements and plant expansion studies to maintain the quality of water and sewer systems.
- Utility billing system upgrades to enhance services and ease of use for our customers.
- Stormwater culvert and dam repairs, such as Longview Lake dam project and spillway improvement, to reduce flooding impacts in surrounding regions.

Other Infrastructure Projects:

- Equipment acquisitions, including purchase of police and fire vehicles for the continuation of responsive public safety efforts.
- Security upgrades and structural improvements to Convention Center Complex and parking facilities.
- Park site improvements and park land acquisitions to enhance citizen and visitor experiences.
- Multiple street and sidewalk projects to address safety and accommodate the population growth throughout the City.

In addition, the adopted FY20 CIP provided funding for new or continuing capital projects consistent with the City's strategic and comprehensive plans ranging from investments in capital maintenance and renovations, long-term public transit expansions, housing and community outreach, and other general public improvements.



FY20 | Understanding City Debt

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 maintaining Aaa ratings from Moody's Investors Service and AAA ratings from S&P Global and Fitch Ratings. All three of the top credit rating agencies assign the highest rating possible on both the general and utility debt. Raleigh is one of the few cities in the nation to have achieved these superior credit ratings, providing benefits such as obtaining the lowest interest rates for the City's debt issuances.

The City maintains a healthy balance of debt to support general government activities, such as public safety facilities, streets, and park improvements, while also supporting capital needs for business-type activities that provide services to our citizens. Given the capital intensive-nature of the business-type activities (pipes, pumps, and treatment plants), a majority (53%) of the City's total debt portfolio is repaid from business-type user charges. The remaining portion (47%) of the City's debt financing of governmental activities is paid for by general governmental revenues.

Governmental activities

General governmental outstanding debt totals \$548.3 million, an increase over prior year. The City has the ability to extend \$322.9 million for future debt needs that would support transportation, parks and recreation, housing and public safety projects.

FY20 New Debt

- \$36.9 million in limited obligation bonds for public safety facilities
- Short-term borrowing was obtained in advance of a future bond issue. The City secured:
 - » \$17.4 million to support transportation, parks and recreation, housing and public safety
 - » Up to \$68.0 million for voted general obligation bonds to support transportation and parks and recreation

10.8% - FY20 actual debt payments compared to General Fund budget. City policy allows for a maximum of 15.0%.

Business-type activities

A majority of City debt is associated with our enterprise funds, primarily Raleigh Water, with a much smaller portion for Convention Center Complex and Parking. Business-type outstanding debt totals \$1.0 billion, which is consistent with prior year. The City did not complete any new money business-type debt issuances during FY20.

Debt refinancing

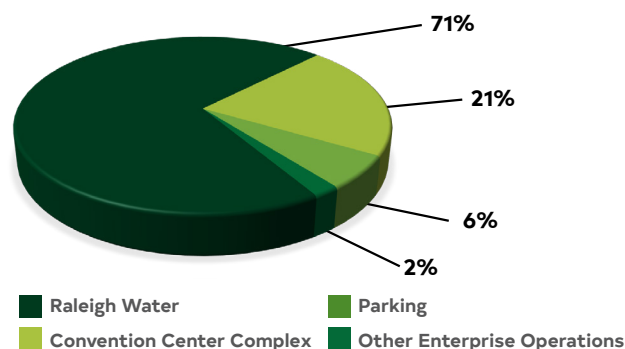
The City negotiated several debt refinances in FY20, which are described further within the CAFR.

- \$56.6 million of limited obligation bonds to refund prior bonds, which will reduce future debt service payments by \$7.7 million
- \$185.2 million of water and sewer revenue bonds, which will reduce future debt service payments by \$19.7 million

Debt management

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

More detailed schedules specifically on City debt may be found in the FY20 CAFR.



FY20 | Raleigh Accolades and Demographics

Raleigh continues to be ranked among the best places in the United States to live, work, play and more.

Below are a few accolades the City has received:

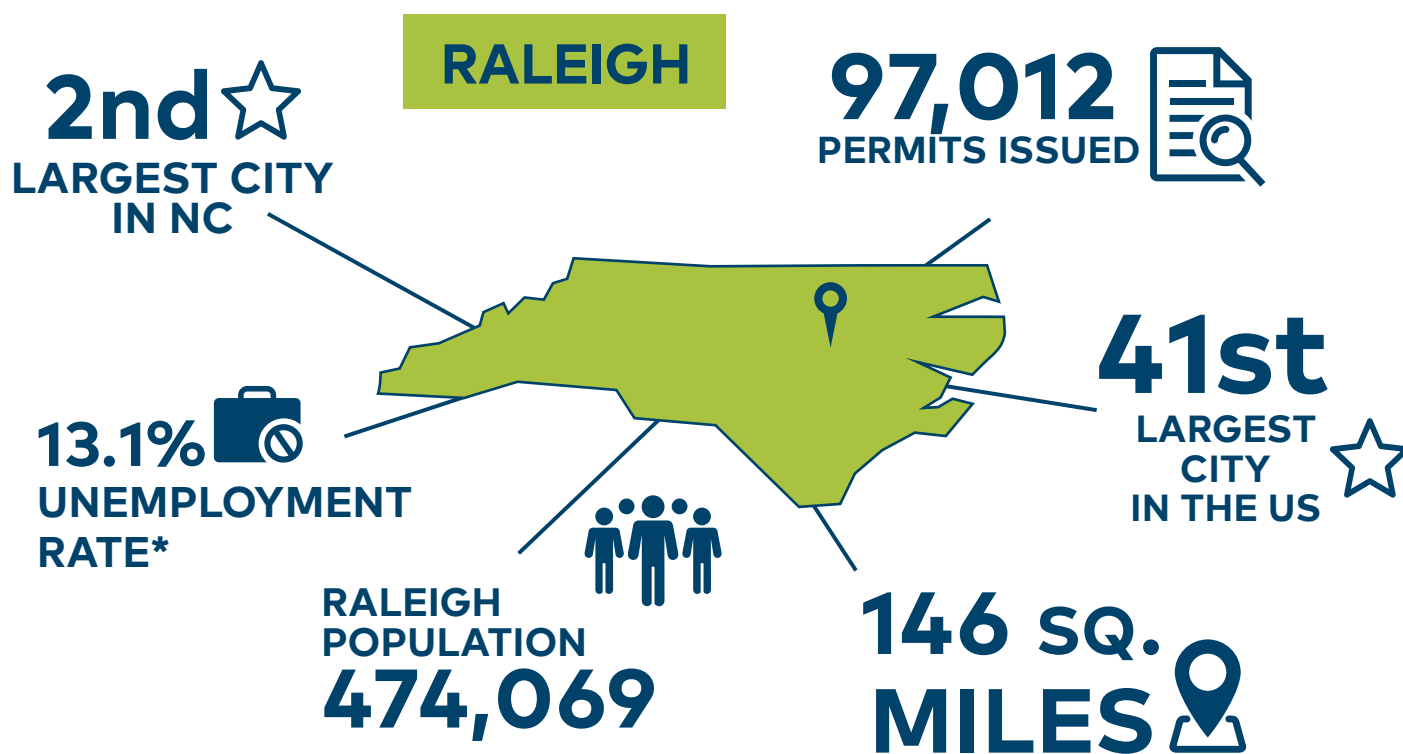
- 2nd Best State Capital to Live in (February 2020 – Wallethub)
- 3rd Best City for Millennials to Relocate (January 2020 – Indy Week)
- 9th Best Cities in U.S. to Move to Now (May 2020 – Curbed)
- 9th for Most Recession-Resistant Cities (March 2020 – SmartAsset)
- 11th Best Cities to Live in (July 2019 – Wallethub.com)
- 12th Most Livable Up-and-Coming Markets for Tech Jobs (January 2020 – Zillow)

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
- Wake County Public School System
- North Carolina State University
- UNC Rex Healthcare
- N.C. Department of Health and Human Services
- City of Raleigh
- Wake County Government
- Conduent Business Services
- Duke Energy Progress



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

*impacts from global pandemic



FY20 Spotlight on External Grants Management

The City Manager's letter at the beginning of this report referenced how the City seeks grant funding to further leverage resources and prioritize strategic projects. Due to the ongoing uncertain economic conditions, the City's use of external grants will better enable the City to continue to meet the needs of our growing community.

External grants allow the City to leverage funding to accomplish key projects and initiatives, which yield positive impacts to the community. External grants take on many forms with some being restrictive and with narrow purposes while others provide flexibility in meeting program needs.

The City understands and values the importance of public trust, so it operates a grants oversight model. Before applying with external agencies, departments present grant requests to an internal committee to collectively assess how the grant will fit into operating and CIP budget plans, referenced on prior pages. The grants program then manages activities

A grant is funding provided to support a specific project or initiative and requires some level of compliance and reporting by the receiving entity.

through the entire lifecycle of grants from grant application through closeout. The City's grants management program is designed to incorporate best practices in the three major functions of a grant: governance, fiscal, and program compliance. Each year as part of the annual external audit, a select number of grants are reviewed. The annual process provides additional checks and balances to ensure the City is utilizing grant funds appropriately and meeting grant requirements. All of the City's grants are listed in the Comprehensive Annual Financial Report (CAFR). The weblink for the CAFR is listed on page 2 of this report. For the fiscal year ended June 30, 2020, the City's grants received a "clean" opinion with no concerns noted.

The City uses external grant award funds to further support youth programs, affordable housing needs, transportation initiatives, public safety activities, and more.

One way the City transparently provides updates on our grants program is with an annual grants report, which was published and shared on the City's website. The report highlights aspects of annual grant programs as well as unique one-time projects completed during the year. In FY20, staff managed \$58 million in grant funding from external federal, state and local sources.

For more details about the City's external grants management program please reference our FY20 Annual Grant Report on the City's website at <https://raleighnc.gov/grant-management>

Primary Grantor Partnerships:

- **Federal Transit Administration**
- **U.S. Department of Transportation
Federal Highway Administration**
- **Department of Justice**
- **North Carolina Department of
Environmental Quality**
- **Housing and Urban Development (HUD)**
- **North Carolina Department of Transportation**
- **Federal Emergency Management Agency (FEMA)**

We are in this together.
We are Raleigh.

CITY OF RALEIGH

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