

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Raleigh (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

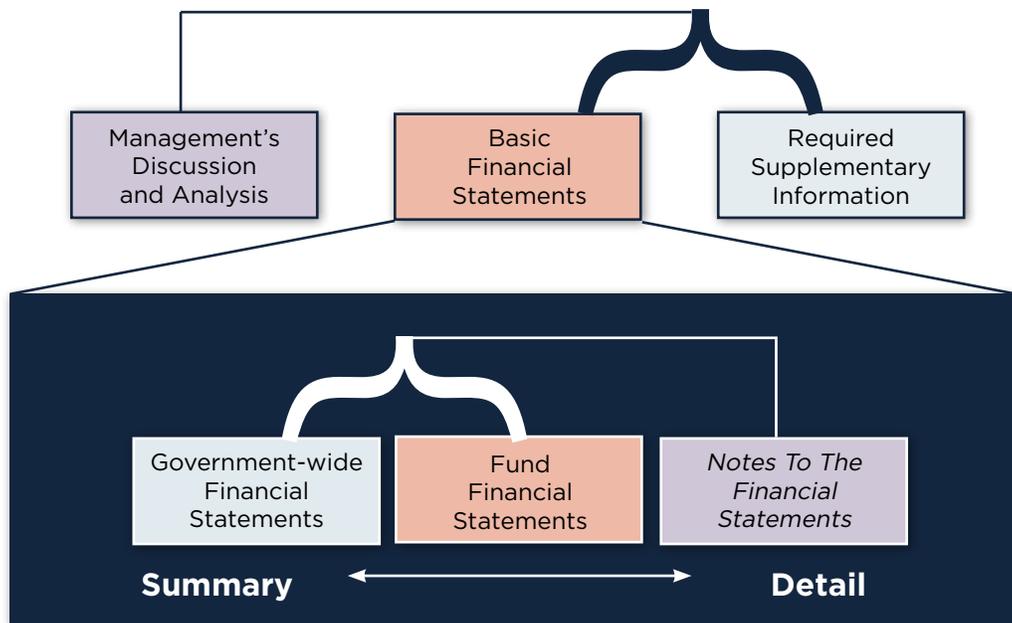
- The assets and deferred outflows of resources of the City of Raleigh exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$1.9 billion (*net position*). This amount represents a \$111.1 million increase from prior year. Of this amount, \$302.2 million (*unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$440.2 million. Of this total amount, 66.2% or \$291.4 million is *available for spending* at the government's discretion (*assigned for specific purposes or unassigned fund balance*). A large part of this amount is either designated or appropriated for continuing activities of the City.
- At the end of the current fiscal year, assigned fund balance for the general fund was \$35.4 million or 11.3% of total general fund expenditures. Unassigned fund balance is \$68.0 million and represents a traditional fund balance reserve maintained for emergencies, liquidity and overall financial strength.
- The City's total long-term obligations increased by a net of \$59.0 million during the current fiscal year as the issuance of new debt exceeded principal repayments. Highlights of financing issues are as follows:
 - The City issued \$136.25 million in water and sewer revenue refunding bonds to refund prior revenue bond issues.
 - The City issued \$66.9 million in new water and sewer revenue bonds for the construction of various utility projects.
 - The City entered into a new installment financing agreement of \$34.5 million for the purchase of rolling stock equipment.
- The City of Raleigh continues to maintain its AAA/Aaa general obligation bond rating from all three major rating agencies.

OVERVIEW OF THE FINANCIAL STATEMENTS

These basic financial statements consist of two sections: introductory and financial. As the figure below shows, the financial section has three components - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements, as follows:
 - The governmental funds statements tell how general government services such as public safety and public works, for example, were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short and long-term financial information about the activities the government operates as a business, such as the water and sewer system, the convention and performing arts complex, and parking enterprise.
 - Fiduciary fund statements provide information about the financial relationships—for example, the retirement plan for the City's employees—in which the City acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

Components of the Financial Section



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The previous figure shows how the required parts of this annual report are arranged and relate to one another. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide the reader with a broad overview of the City's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The *statement of net position* presents information on all of the City's assets and deferred outflows of resources compared to liabilities and deferred inflows of resources, with the difference between reported as *net position*. This statement combines and consolidates governmental fund's current financial resources (short-term spendable resources) with capital assets and long-term obligations. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the City of Raleigh is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). This is intended to simplify and summarize the user's analysis of the cost of various governmental services and/or subsidy to various business-type activities. The governmental activities of the City include general government, community development, public works, public safety, leisure services, and economic development programs. The business-type activities of the City include water and sewer, convention and performing arts complex fund, parking facilities, mass transit, stormwater management and solid waste services. The solid waste services activity was converted from a governmental activity to a business-type activity for the fiscal year ended June 30, 2013.

The government-wide financial statements include the Walnut Creek Financing Assistance Corporation (*WCFAC, a blended component unit*). The WCFAC, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 1 - 3 of this report.

Fund financial statements. Traditional users of governmental fund financial statements will find the fund financial statements presentation more familiar. However, the focus is on major funds, rather than the individual fund types. The fund financial statements provide a more detailed look at the City's most significant activities.

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Raleigh, like all other governmental entities in North Carolina, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, such as the general statutes or the City's budget ordinance. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund which is considered to be a major fund. Data from the other sixteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 4 - 9 of this report.

Proprietary funds. The City of Raleigh maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, convention center and performing arts (referred to as convention center) operations, parking facilities, mass transit and stormwater management operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Raleigh uses internal service funds to account for its print services, risk management, employees' health benefits, governmental and public utilities equipment replacement and vehicle fleet services funds. All of these services benefit governmental functions except for the public utilities equipment replacement fund, which predominantly benefits business-type functions. These services have been included within their respective predominant activities in the government-wide financial statements.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the three major enterprise funds, the water and sewer fund, the convention center fund and the mass transit fund. Conversely, the nonmajor enterprise funds and all internal service funds are combined into single, aggregated presentations in the proprietary fund financial statements. Individual fund data for the nonmajor enterprise funds and the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 10 - 17 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for *proprietary funds*.

The basic fiduciary fund financial statements can be found on pages 18 - 19 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 - 57 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Raleigh's progress in funding its obligation to provide pension benefits to its law enforcement officers. Required supplementary information can be found on pages 58 - 61 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 62-116 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial condition. In the case of the City of Raleigh, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,855.3 million at the close of the most recent fiscal year, compared to \$1,744.2 million at the end of the previous fiscal year.

The following table reflects the condensed Statement of Net Position:

Net Position (in millions of dollars)						
	Governmental activities		Business-type activities		Total activities	
	2012*	2013	2012*	2013	2012*	2013
Current and other assets	\$ 609.5	\$ 615.1	\$ 285.3	\$ 363.8	\$ 894.8	\$ 978.9
Capital assets	860.5	872.1	1,633.2	1,702.2	2,493.7	2,574.3
Deferred outflows of resources	7.8	6.9	105.2	85.9	113.0	92.8
Total assets and deferred outflows of resources	1,477.8	1,494.1	2,023.7	2,151.9	3,501.5	3,646.0
Long-term debt outstanding	541.7	525.9	1,034.9	1,109.8	1,576.6	1,635.7
Other liabilities	69.7	43.0	109.0	109.8	178.7	152.8
Deferred inflows of resources	1.4	0.9	0.6	1.3	2.0	2.2
Total liabilities and deferred inflows of resources	612.8	569.8	1,144.5	1,220.9	1,757.3	1,790.7
Net investment in capital assets	563.3	570.8	703.5	717.9	1266.8	1,288.7
Restricted	294.5	264.4	-	-	294.5	264.4
Unrestricted	7.2	89.1	175.7	213.1	182.9	302.2
Total net position	\$ 865.0	\$ 924.3	\$ 879.2	\$ 931.0	\$ 1,744.2	\$ 1,855.3

* 2012 figures have been restated to reflect the implementation of GASB 63 and 65.

By far the largest portion of the City of Raleigh's net position (\$1.3 billion or 69.5%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) net of any related debt used to acquire those assets that is still outstanding. The City of Raleigh uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City of Raleigh's investment in its capital assets is reported net of outstanding related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (\$264.4 million or 14.2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$302.2 million or 16.3%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Raleigh is able to report positive balances in all three categories of net position both for the City as a whole, as well as for its separate governmental and business-type activities.

The City's net position increased by \$111.1 million during the current fiscal year which includes a reduction in net position of \$3.3 million for a prior period adjustment due to the implementation of GASB 65. The following table summarizes the changes in net position:

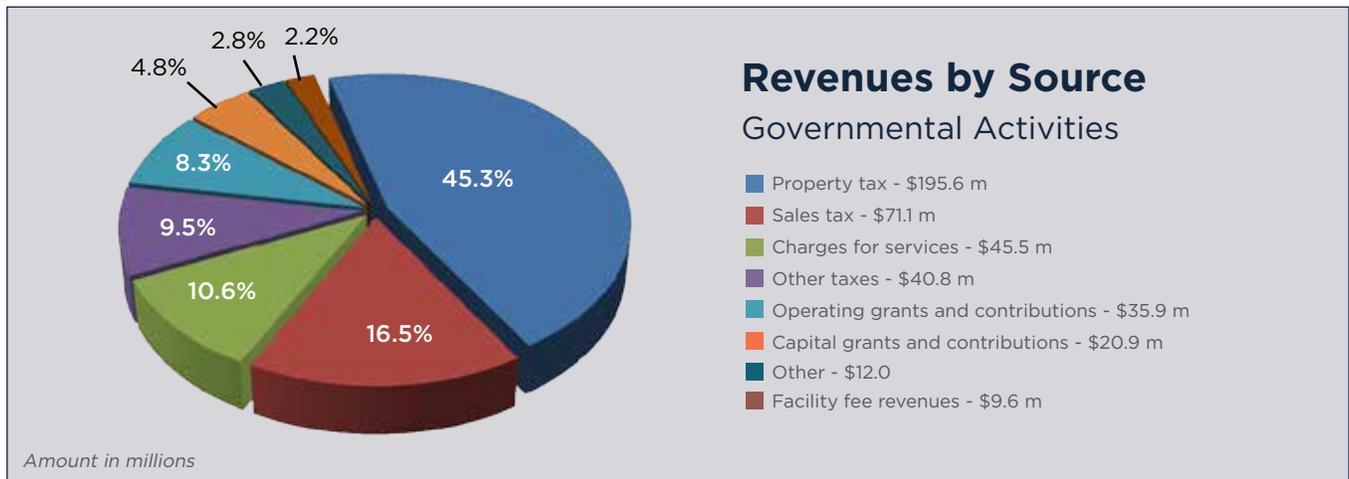
Changes in Net Position						
(in millions of dollars)						
	Governmental activities		Business-type activities		Total activities	
	2012	2013	2012	2013	2012	2013
Revenues:						
Program revenues:						
Charges for services	\$ 61.8	\$ 45.5	\$ 215.3	\$ 250.7	\$ 277.1	\$ 296.2
Operating grants and contributions	41.7	35.9	7.5	9.3	49.2	45.2
Capital grants and contributions	17.2	20.9	6.0	7.1	23.2	28.0
General revenues:						
Property taxes	189.4	195.6	-	-	189.4	195.6
Other taxes	108.6	111.9	-	-	108.6	111.9
Other	12.9	21.6	1.1	0.3	14.0	21.9
Total revenues	431.6	431.4	229.9	267.4	661.5	698.8
Expenses:						
General government	52.4	39.2	-	-	52.4	39.2
Community development services	25.0	25.1	-	-	25.0	25.1
Public works	51.8	48.5	-	-	51.8	48.5
Public safety	141.6	142.1	-	-	141.6	142.1
Leisure services	60.3	56.2	-	-	60.3	56.2
Economic development programs	5.7	4.6	-	-	5.7	4.6
Interest on long-term debt	11.0	14.8	-	-	11.0	14.8
Water and sewer	-	-	133.8	135.1	133.8	135.1
Convention center	-	-	34.1	34.1	34.1	34.1
Mass transit	-	-	34.7	33.8	34.7	33.8
Parking facilities	-	-	11.7	11.8	11.7	11.8
Stormwater	-	-	10.6	11.2	10.6	11.2
Solid waste services	23.6	-	-	27.9	23.6	27.9
Total expenses	371.4	330.5	224.9	253.9	596.3	584.4
Increase (decrease) in net position before transfers	60.2	100.9	5.0	13.5	65.2	114.4
Transfers in (out)	(34.2)	(41.2)	34.2	41.2	-	-
Increase (decrease) in net position	26.0	59.7	39.2	54.7	65.2	114.4
Net position, beginning of year	839.0	865.0	840.0	879.2	1,679.0	1,744.2
Prior period adjustment	-	(0.4)	-	(2.9)	-	(3.3)
Net position, end of year	\$ 865.0	\$ 924.3	\$ 879.2	\$ 931.0	\$ 1,744.2	\$ 1,855.3

The change in net position of \$111.1 million was impacted by the following:

- The City's total revenues were \$698.8 million, a 5.6% increase over prior year. A decrease in charges for services in the governmental revenues category is the result of the Solid Waste Services activity being reflected as an enterprise fund rather than as a governmental activity. This decrease in governmental type revenue was offset by the creation of the Solid Waste Services fund in the business type category. Capital grants, property taxes/other taxes and other revenues also saw an increase in fiscal year 2013. The two largest revenue sources for the City are charges for services, which come predominately from water and sewer charges, and makes up 42.4% of the total, and property taxes, which represents 28.0%.
- The total cost of all programs and services was \$596.3 million, a modest 0.4% increase over prior year. Cost containment measures have kept costs relatively flat. The City's expenses cover a range of services, the largest of which are 23.7% related to public safety (police, fire and emergency communications), and 22.4% related to utilities (water and sewer).

GOVERNMENTAL ACTIVITIES

Revenues for the City's governmental activities were \$431.4 million, while expenses were \$330.5 million. The increase in net position for governmental activities (after transfers out of \$41.2 million and a prior period adjustment of \$0.4 million) was \$59.3 million in 2013.



The reported results for the fiscal year for the governmental activities show that:

The City received \$329.1 million (or 76.3%) in general revenues from taxes and other revenues:

- Property tax - \$195.6 million
- Sales taxes - \$71.1 million
- Other taxes - \$40.8 million
- Facility fee revenues - \$9.6 million
- Other revenues (such as interest and unrestricted grants) - \$12.0 million

General revenues are used to pay for the \$228.2 million net cost of governmental activities, which represents the cost of services not covered by program revenues.

Those who directly benefited from service-fee based programs, such as parks and recreation, paid \$45.5 million in charges for those services.

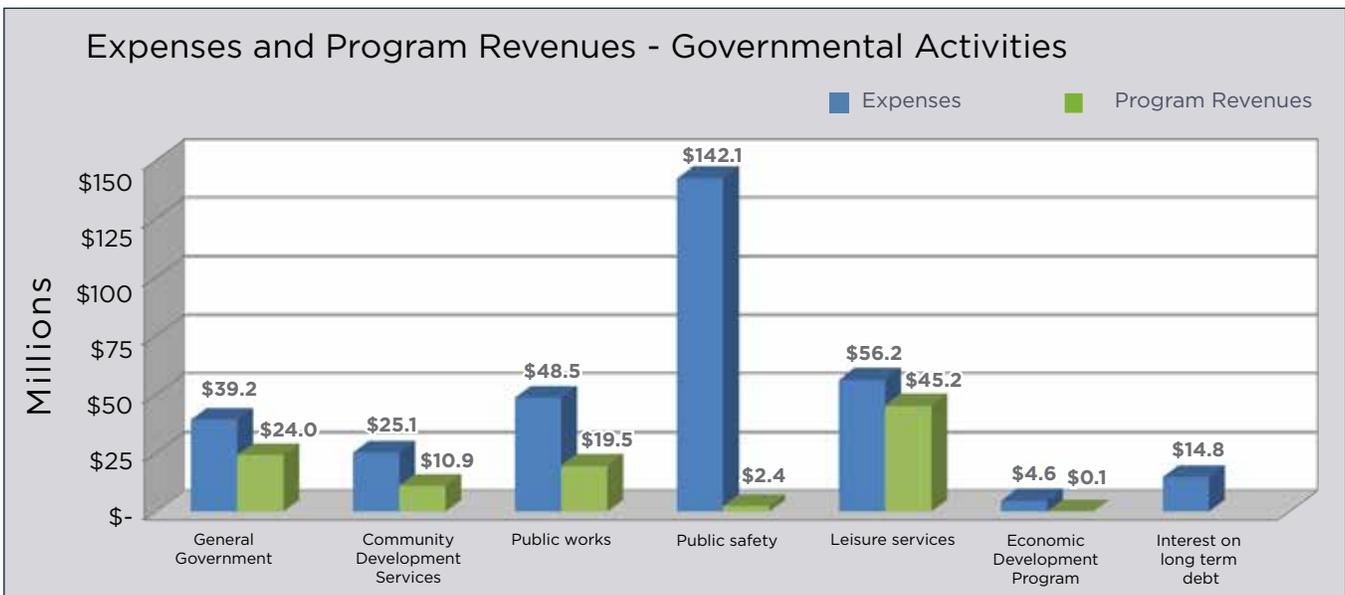
Other governments and organizations subsidized certain City programs with grants and contributions totaling \$56.8 million. Some of the grants and contributions include:

- Support from various federal and state agencies - \$24.4 million
- Interlocal support from Wake County for debt service and other expenses on the convention center - \$17.5 million
- Contributions from annexations of streets and sidewalks - \$7.7 million

The total cost of all governmental activities this year was \$330.5 million. This cost was incurred in order to provide basic municipal services to the citizens of Raleigh. These services include, but are not limited to: public safety (police, fire, emergency communication) leisure services (parks, recreation and cultural resources), public works (street maintenance), general government including city attorney, finance, and information technology. The City's four largest governmental programs represent 86.6% of the total governmental activities:

- Public safety - 43.0%
- Leisure services - 17.0%
- Public works - 14.7%
- General government - 11.9%

As depicted on the chart below, program expenses exceed program revenues for all governmental activities. This is to be expected as other general sources of revenue such as property taxes, sales taxes and grant funding received by the City are used to subsidize the gap between program expenditures and program revenues.



BUSINESS-TYPE ACTIVITIES

Revenues of the City's business-type activities were \$267.4 million, and expenses were \$253.9 million. The increase in net position for business-type activities (after transfers in of \$41.2 million and a prior period adjustment of \$2.9 million) was \$51.8 million in 2013. The following table shows the total cost and net cost or revenue for these services.

	Total Cost of Services		Net (Cost) Revenue of Services	
	2012	2013	2012	2013
	Water and sewer	\$ 133.8	\$ 135.1	\$ 41.0
Convention center	34.1	34.1	(21.6)	(21.8)
Parking facilities	11.7	11.8	(0.9)	(1.1)
Mass transit	34.7	33.8	(19.9)	(19.3)
Stormwater	10.6	11.2	5.3	6.4
Solid waste services*	-	27.9	-	(8.4)
Total	\$ 224.9	\$ 253.9	\$ 3.9	\$ 13.2

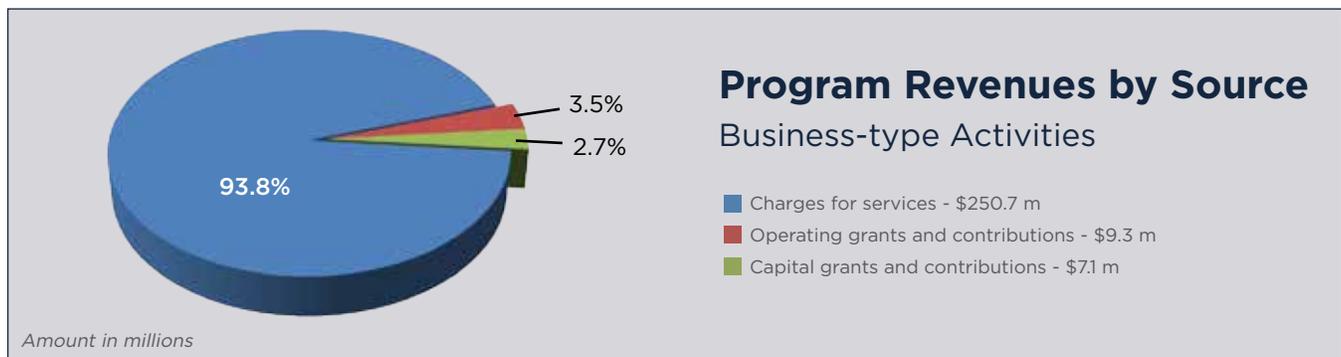
*Previous to 2013, solid waste services activity was reported within governmental activities.

Water and sewer operating revenue of \$186.5 million reflects an increase of 9.4% from the prior year. The increase in revenue was the result of an increase in fees associated with development activity. Operating expenses of \$119.9 million decreased 2.0% from 2012. This slight decrease is largely the result of continuous cost containment efforts from the Public Utilities department.

Convention Center operations including the Performing Arts venue delivered \$12.2 million of operating revenues in 2013, a slight decrease of 1.6% compared to 2012. Operating expenses remained relatively flat compared to 2012. Overall, operations were consistent with expectations.

The parking facilities operations provided \$10.8 million of revenues in 2013, which remained relatively flat when compared to 2012. Operating expenses increased slightly by \$0.3 million, an increase of 3.4% compared to 2012. This increase is a normal fluctuation when considering the nature of operations and scheduled maintenance and labor for the parking operations.

Operating revenues in the mass transit operation of \$5.2 million in 2013 remained relatively flat when compared to prior year. Operating expenses of \$33.4 million in 2013 decreased slightly 3.2% from 2012 which is the result of continuous cost containment efforts. The mass transit operations are subsidized by the general fund and at the Federal and State level through grant funding.





Stormwater operating revenues of \$16.0 million in 2013 are 3.2% higher than in 2012. Stormwater fees were impacted positively by the increase in development activities. Operating expenses of \$11.4 million increased 6.5% from 2012. This was the result of an increase in projects and management initiatives during the year.

The Solid Waste Services fund was created in 2013. The new enterprise fund saw \$19.5 million in revenue and \$29.1 million of operating expenses. This fund is highly subsidized by the general fund with a transfer of \$12.3 million in 2013. By moving the solid waste services activity from the general fund to a standalone enterprise fund, this allows the City to have improved analysis and modeling with the goal of reducing the subsidy from the general fund in future years.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Raleigh uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *assigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

- *Nonspendable* fund balance is 0.7%, representing the City's investment in inventories.
- *Restricted* fund balance of 17.6%, indicates that it is not available for new spending because it has already been committed to cover debt service costs (\$35.2 million), restricted by state statute (\$38.2 million), restricted for federal program reserves (\$1.9 million), restricted for streets (\$0.2 million) or restricted for public safety (\$1.8 million).
- *Committed* fund balance of 15.6%, which can only be used for specific purposes imposed by majority vote by City Council.
- *Assigned* fund balance of 50.6%, which is available for spending at the government's discretion.
- The remaining fund balance of 15.3% is *unassigned*, and represents the City's residual net resources.

Governmental Fund Balance Classification at June 30, 2013 (in millions of dollars)

	General Fund	Nonmajor Governmental	Total Governmental	%
Nonspendable	\$ 3.0	\$ -	\$ 3.0	0.7%
Restricted:				
State statute	38.2	-	38.2	8.7%
Debt service	-	35.2	35.2	8.0%
Federal programs	1.9	-	1.9	0.4%
Streets	0.2	-	0.2	0.2%
Public safety	-	1.8	1.8	0.3%
	40.3	37.0	77.3	17.6%
Committed	68.5	-	68.5	15.6%
Assigned	35.4	188.0	223.4	50.6%
Unassigned	68.0	-	68.0	15.3%
	\$ 215.2	\$ 225.0	\$ 440.2	100.0%

The general fund is the chief operating fund of the City. At the end of the current fiscal year, assigned fund balance of the general fund was \$35.4 million, while total fund balance was \$215.2 million. As a measure of the general fund's liquidity, it may be useful to compare both assigned fund balance and total fund balance to total fund expenditures. Assigned fund balance represents 11.3% of total general fund expenditures, while total fund balance represents 68.8% of that same amount, amounts generally consistent with the prior year.

The North Carolina Local Government Commission strongly recommends that local governments maintain an unassigned fund balance of at least 8% of general fund expenditures. The City's policy is to maintain an unassigned fund balance of at least 14% of the succeeding year's expenditure budget. Unassigned fund balance is the amount remaining after management's policy designations. The City's designations of assigned fund balance total \$35.4 million as specified on page 26 of the notes to the financial statements. This includes \$21.3 million appropriated for 2013-14. Unassigned fund balance of \$67.9 million represents 15.9% of the 2013-14 general fund expenditure budget.

The fund balance of the City's general fund increased by \$5.0 million during the current fiscal year. Increased revenues for sales tax (\$3.2 million), property tax (\$5.9 million), and the effects of moving Solid Waste Services into a standalone enterprise fund explains much of this increase.

Proprietary funds. The City of Raleigh's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. All enterprise funds are treated as major funds and include the water and sewer, convention and performing arts complex, mass transit, stormwater, parking and solid waste services funds. Additional discussion concerning the finances of these funds has already been addressed in the discussion of the City's business-type activities.

BUDGETARY HIGHLIGHTS

During the fiscal year, City Council approved various modifications to the original, approved budget. Generally, budget amendments fall into one of four categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once final information is available; 2) amendments made to recognize new funding amounts from external sources, such as from Federal or State grants; 3) increases in appropriations that become necessary to maintain services and 4) amounts that are carried over from the previous year and re-designated for the subsequent year's expenditures.

General Fund. General fund revenues recognized positive budget variances during 2012-13 with actual results coming in at \$7.7 million above final budget. This is an improvement over recent years, bolstered by positive collection results for property tax and sales tax, two of the City's primary revenue streams. General fund expenditures came in well below budget which resulted in a positive budget variance of \$38.8 million. All expenditures functions and departments reported positive budget variances, which is a result of conservative budget practices as well as the City's cost management efforts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City of Raleigh's cumulative investment in capital assets for its governmental and business type activities as of June 30, 2013, amounts to \$2.6 billion (net of accumulated depreciation). This investment in capital assets includes land, buildings and machinery, water and sewer systems, streets and sidewalks, parking decks, buses, equipment, furniture and fixtures, enterprise-wide software and general improvements. The City's investment in capital assets for the current fiscal year was \$80.6 million, a 3.2% increase over prior year.

Major capital asset investments during the fiscal year included the following:

- Construction began and/or was completed for governmental activities including a variety of street projects, parks and greenways, and fire stations. Total governmental projects completed and capitalized in fiscal year 2012-13 were \$22.0 million.
 - One of those completed projects was the Buffalo Road Aquatics Center opened in September 2012, at a total cost of \$8.3 million.
- Equipment acquisitions added \$5.3 million to the City's rolling stock inventory.
- Construction began and/or was completed on additional facilities for various enterprise operations. Total enterprise projects completed and capitalized in fiscal year 2012-13 was \$2.5 million.
 - One of those completed projects was the transit bus terminal, at a total capitalized cost of \$0.4 million.
- Equipment acquisitions added \$2.0 million to the City's rolling stock inventory.
- Annexations added \$7.7 million to streets for governmental activities and \$5.5 million to water and sewer systems for the business-type activities.

Capital Assets*

(in millions of dollars)

	Governmental activities		Business-type activities		Total activities	
	2012	2013	2012	2013	2012	2013
Land	\$ 148.3	\$ 146.9	\$ 75.3	\$ 78.2	\$ 223.6	\$ 225.1
Buildings and machinery	64.7	61.8	314.6	305.5	379.3	367.3
Water and sewer systems	-	-	829.4	812.2	829.4	812.2
Streets and sidewalks	318.5	305.0	1.0	0.9	319.5	305.9
Parking decks	-	-	117.7	114.1	117.7	114.1
Buses	-	-	11.5	10.3	11.5	10.3
Equipment	24.2	23.4	8.1	7.5	32.3	30.9
Furniture and fixtures	0.2	0.1	0.5	0.2	0.7	0.3
Improvements	84.1	84.7	99.8	99.2	183.9	183.9
Enterprise-wide software	33.0	34.6	-	-	33.0	34.6
Construction in progress	187.5	215.6	175.3	274.1	362.8	489.7
Total	\$ 860.5	\$ 872.1	\$ 1,633.2	\$ 1,702.2	\$ 2,493.7	\$ 2,574.3

* Amounts shown net of accumulated depreciation

Additional information on the City's capital assets can be found on pages 30 - 32 of the notes to the financial statements of this report.

Long-term debt. At the end of the current fiscal year, the City had total general obligation bonds outstanding of \$327.8 million. The remainder of the City's debt represents revenue bonds (\$681.6 million) and installment financing agreements (\$507.7 million – installment notes, COPS, etc.) secured solely by specified revenue sources and property. The City's total liability for bonded debt and other installment financing agreements increased by \$50.8 million (3.5%) during 2012-13.

In May 2013, the City issued \$66.9 million in new water and sewer revenue bonds for various utility projects. Additionally, it included \$136.3 million in water and sewer revenue refunding bonds to refund previously issued revenue bonds. The economic benefit to the City from this refunding was \$13.4 million. The issue was rated AAA by Fitch, AAA by Standard and Poor's and Aa1 by Moody's.

Also in May 2013, the City entered into a \$22.0 million drawdown program installment financing for improvements to the performing arts center, street project design and purchase of downtown property. At fiscal year-end, \$0.3 million in proceeds had been drawn down. Subsequent to year end, the agreement was amended to increase the total maximum to \$25.3 million for the purchase of \$3.5 million of additional pieces of property.

Long-Term Debt (stated in millions)						
	Governmental activities		Business-type activities		Total activities	
	2012	2013	2012	2013	2012	2013
General obligation bonds	\$ 344.0	\$ 322.8	\$ 6.7	\$ 5.0	\$ 350.7	\$ 327.8
Revenue bonds	-	-	629.8	681.6	629.8	681.6
Installment financing agreements	142.9	139.1	342.9	368.6	485.8	507.7
Total	\$ 486.9	\$ 461.9	\$ 979.4	\$ 1,055.2	\$ 1,466.3	\$ 1,517.1

In June 2013, the City entered into an installment financing agreement of \$34.5 million for the replacement of governmental rolling stock equipment. Principal and interest installments are paid monthly and carry an interest rate of 0.9%.

State statutes limit the amount of general obligation debt a governmental entity may issue to 8.0% of the total assessed value of taxable property. The City's outstanding net debt of \$867.7 million is significantly less than the current debt limitation of \$4.1 billion.

Raleigh continues to benefit from outstanding credit ratings as evidenced by the aforementioned placements, earning the highest general obligation credit ratings and excellent revenue bond and limited obligation bond ratings from all three major rating agencies.

Additional information on the City of Raleigh's long-term debt can be found in the notes to the financial statements on pages 34 – 44 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The financial results for the year ended June 30, 2013, as outlined in the above discussion and analysis, continue to show improvement from prior years, which is indicative of the economic stabilization and steady growth occurring in the local and state economy. Economic improvement is expected to continue in the second half of 2013 and into 2014 as retail, housing, and public revenue sectors show solid signs of growth. Moderate growth in property tax, sales tax, and development revenues are projected for fiscal year 2013-14; however, the City continues to emphasize a disciplined and strategic allocation of resources and fiscal prudence to ensure long-term financial sustainability. The City's ongoing management of its finances has enabled the City to meet its fund balance goals and maintain an AAA/Aaa general credit ratings while continuing to provide the citizens of Raleigh with high levels of service.

Significant factors considered in preparing the City's budget for the 2013-14 fiscal year include the following:

- The 2013-14 combined budgets for operating and capital programs totals \$707.8 million, representing a 5.3% overall increase over the 2012-13 combined budget.
- The adopted General Fund budget for 2013-14 of \$404.8 million is an increase of 5.5% over the adopted 2012-13 budget.
 - The primary revenue, property taxes, is budgeted at \$203.4 million, an increase of \$9.1 million, or 4.7% from 2012-13.
 - The property tax rate remained unchanged at \$.3826/\$100 of assessed valuation from 2012-13.
 - The 2013-14 budget for sales tax is \$74.2 million, an increase of \$5.5 million, or 8.1%, from the 2012-13 budget.
- Consistent with the City's multi-year utility rate model, the budget for water and sewer charges increased 9.8% from \$173.1 million to \$190.1 million for the 2013-14 budget year. This increase is attributed to a sewer rate adjustment and some projected growth.
- The 2013-14 capital budget includes new and/or continuing projects totaling \$177.9 million, including projects for roads, parks, utilities and general public facilities.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Raleigh's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the:

**Office of the Chief Financial Officer
City of Raleigh
PO Box 590
Raleigh, North Carolina 27602
919-996-4930**