



# Quarterly Budget Report

## *Second Quarter of Fiscal Year 2023-24*



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### OVERVIEW

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The accompanying tables summarize the recognized revenues and expenditures for Durham County's General Fund, Capital Improvement Fund, and Reappraisal Reserve Fund through December 31, 2023. Please note that 4-year second quarter averages have been provided for comparison. These averages reflect what was reported in the second quarter report for the four preceding fiscal years.

A dashboard representation of second quarter budgets is provided as a convenient way to monitor the progress of FY 2023-24 revenues and expenditures. The dashboard uses a "traffic light" indicator to represent where agency revenues and expenditures are in comparison to a 4-year second quarter average. The indicator, if red, is not a cause for concern, but rather an indicator of an area that merits a second look. For all "red light" indicators an overview of the cause is provided.

For revenues, **green** represents revenues at 90% or greater than the 4-year average, **yellow** represents revenues between 70% and up to 90% of the 4-year average, and **red** represents revenues below 70% of the average. For expenditures, **green** represents expenditures not more than 2% greater than the 4-year average, **yellow** represents expenditures between 2% and 5% greater than the average, and **red** represents expenditures greater than 5% of the average.

### REVENUE SUMMARY

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Through December 31, 2023, the County collected \$347,368,689 or 45.02% of the budgeted General Fund, Capital Improvement Fund, and Reappraisal Reserve Fund revenue. Two of the most significant revenues in these funds, property tax and sales tax revenue collections, traditionally are not received in significant amounts until the second quarter of the fiscal year.

Current year property tax collection, the largest single revenue source for Durham County, is slightly under the 2nd Quarter 4-year average (66.99% collected, vs 81.56% respectively). Vehicle property tax collection is closely following the 4-year average. Overall trending for this largest revenue source is performing under the 4-year average. The underperformance is directly related to a later-than-normal mail out of property tax bills and correspondingly later revenue collection. Overall revenue collection trending looks positive, but just a little later than previous years' comparisons. It should be noted that the 4-year average has seen each annual property tax revenue collection year's revenue grow significantly. In summation, while the percentages look "normal" actual property tax collection continues to grow at a strong pace. The third quarter will provide a more definitive perspective on these revenue collection trends.

Sales Tax revenue collection is significantly down across all major sales tax articles compared to the 4-year average. This concerning development is due to a general slowdown, year over year, of gross sales across the state, and particularly Durham County. That trend is then magnified by a large increase in the amount of refunds (sales tax returned to local and other nonprofits) experienced during the 1<sup>st</sup> and 2<sup>nd</sup> quarter of the current fiscal year. It should be remembered that at the time of this report only three months of current year sales tax has been collected, so there is a significant



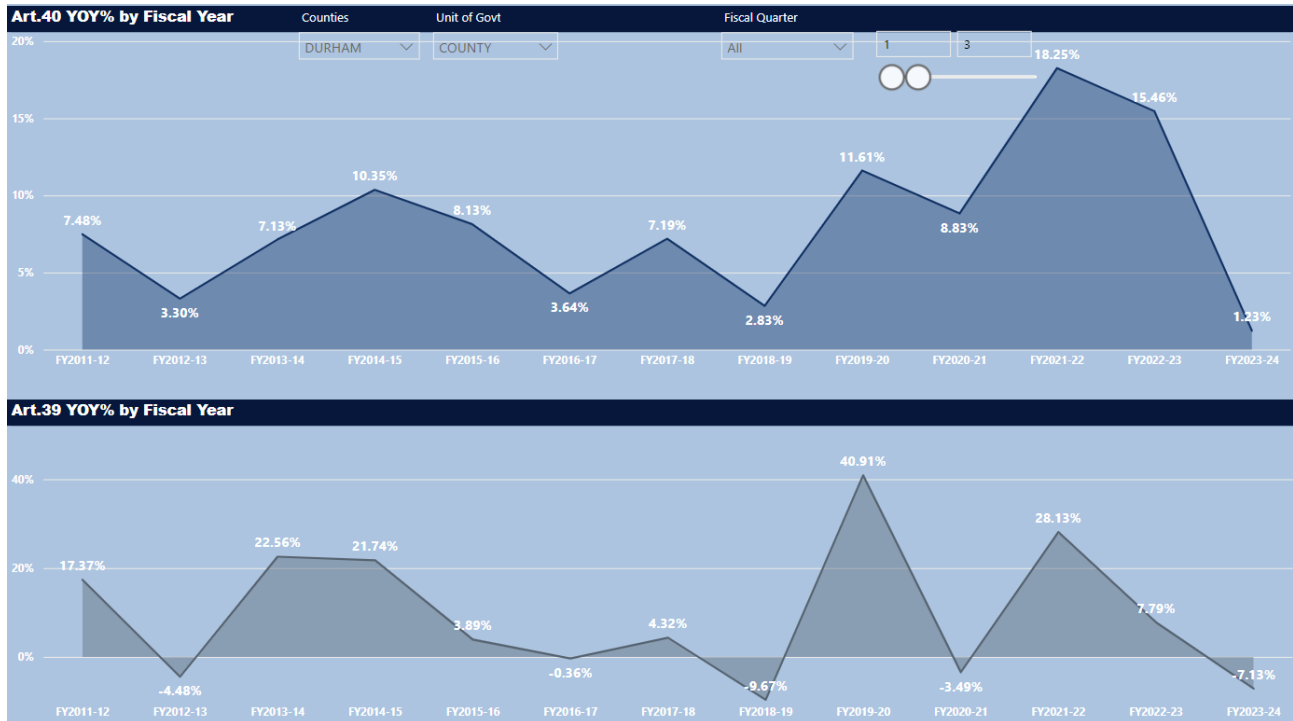
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amount of time for the County to “catch up” in relation to actual sales tax collection versus what was budgeted for FY 2023-24. However, the trend that Durham County is currently experiencing is also being seen across the state, and in particular, within the larger more urban counties. Ultimately, the annual sales tax revenue growth that Durham County and the state had been experiencing over the last several years was unsustainable. An infusion of COVID funds, changing shopping demographics, and increased general spending meant that Durham County sales tax revenue growth was explosive over the last three years. As those extra funds dissipate and the effects of inflation are felt on non-sales tax related purchases (food and fuel), the annual sales tax growth rate was inevitably going to slow.

The net effect of all the changes described below is much slower growth or even a reduction year over year in key Durham County sales tax. Below you can see that the net new Article 40 sales tax revenue to Durham County increased only 1.23% over the same three months in previous years, while article 39 sales tax revenue actually decreased by 7.13% over that same time period. The article 39 sales tax reduction is magnified by large increases in refunds for those three months.



The Budget Office continues to have a difficult time trying to predict how the local and state economy would react to COVID related changes in consumer spending, inflation increases, as well as assessing Durham County’s strong economy, but is concluding that consumer spending will continue to grow at a significantly lower level than the previous few years. It remains to be seen whether overall growth of annual sales tax growth will continue in the foreseeable future for Durham County’s economy.

Register of Deeds Registration and Transfer fees have been collected at a high level in previous fiscal years reflecting a very active Durham County housing market. The Registration and Transfer fees budget increased by \$3.6M between FY 2019-20 and FY 2022-23, and actual revenue collection



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peaked at more than \$10M in FY 2021-22. However, first and second quarter FY 2023-24 collections as a percentage of budget are down from previous years. This is because the pace of actual monthly collections in this fiscal year has slowed compared to previous fiscal years, largely related to the slowdown in home sales due to significantly higher interest rates for mortgages. Last fiscal year, only \$6.57M was collected against a \$9M budget; correspondingly, the budget was reduced to \$8M this year but revenue collection continues to lag.

While inflation has had negative effects on several key revenue sources for Durham County, it will, in turn, have a positive effect on interest earned related to County cash in local banks. With higher savings rates investment income is expected to reach upwards of \$5 million by the end of the fiscal year, several million above the budgeted amount.

Key Revenues	Current Budget	Revenues End of Qtr.	% Revenues	4 Prior Year Qtr. Average	Status of Revenues
ABC Net Profit Distribution	\$2,700,000	\$1,354,012	50.15%	19.59%	●
Article 39 (1 Cent)	\$34,572,422	\$6,544,305	18.93%	29.66%	●
Article 40 (1/2 Cent)	\$22,664,769	\$5,762,921	25.43%	34.98%	●
Article 42 (1/2 Cent)	\$25,911,267	\$5,684,913	21.94%	32.26%	●
Article 44 (1/2 Cent)		\$29	0.00%	0.00%	●
Article 46 (1/2 Cent)	\$23,100,201	\$4,963,453	21.49%	32.73%	●
City Sales Tax ILA	\$21,659,659	\$7,748,645	35.77%	34.41%	●
Deed Registration and Transfer Fees	\$8,000,000	\$2,523,352	31.54%	63.51%	●
Duke EMS Support - Comm. Health Fund	\$2,936,630	\$2,983,707	101.60%	87.65%	●
EMS Patient Fees	\$15,183,483	\$6,932,483	45.66%	45.79%	●
Fund Balance Appropriated	\$67,167,751	\$0	0.00%	0.00%	●
Intergovernmental Items	\$62,205,808	\$30,510,567	49.05%	39.89%	●
Investment Revenue	\$3,150,000	\$1,377,442	43.73%	58.10%	●
Local Occupancy Tax (General Fund)	\$4,225,000	\$2,027,250	47.98%	44.58%	●
Local Occupancy Tax (NCMLS)	\$500,000	\$496,209	99.24%	36.51%	●
Other General Funds Revenues	\$7,319,945	\$3,371,919	46.06%	52.60%	●
Property Tax (All Except Vehicle)	\$355,923,008	\$238,424,403	66.99%	81.56%	●
Property Tax (Vehicles Only)	\$23,205,548	\$10,175,389	43.85%	46.82%	●
Property Tax Collection Fees	\$2,278,897	\$1,476,690	64.80%	83.46%	●
Sheriff Fees	\$500,000	\$271,087	54.22%	38.96%	●
Solid Waste Management Fee Co	\$2,284,531	\$1,846,960	80.85%	83.67%	●
State Hold Harmless Funds	\$12,000,000	(\$34,445)	-0.29%	30.66%	●
Transfers From Other Funds	\$74,118,067	\$12,927,398	17.44%	16.20%	●
<b>Total</b>	<b>\$771,606,985</b>	<b>\$347,368,689</b>	<b>45.02%</b>	<b>55.90%</b>	

- Current year collections equal 90% or greater than 4-year same quarter average
- Current year collections equal 90% to 70% of 4-year same quarter average
- Current year collections equal 70% or less than 4-year same quarter average



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### Key revenue items with red indicator include:

- **Article 39, Article 42, Article 46:** Sales tax revenue collection has only been collected for three months by the time this report is presented. Description of sales tax revenue performance for the current fiscal year is described in preceding paragraphs.
- **Deed Registration and Transfer Fees:** Register of Deeds Registration and Transfer fees have been collected at a high level in previous fiscal years reflecting a very active Durham County housing market. The Registration and Transfer fees budget increased by \$3.6M between FY 2019-20 and FY 2022-23, and actual revenue collection peaked at more than \$10M in FY 2021-22. However, first and second quarter FY 2023-24 collections as a percentage of budget are down from the previous years. This is largely because the pace of actual monthly collections in this fiscal year has slowed compared to previous fiscal years, largely related to the slowdown in home sales due to significantly higher interest rates for mortgages. Last fiscal year, only \$6.57M was collected against a \$9M budget; correspondingly, the budget was reduced to \$8M this year but revenue collection continues to lag.
- **State Hold Harmless Funds:** In August of each fiscal year a final “true up” amount is received from the state for the prior fiscal year. However, the largest portion (80-90%) of this distribution is seen in March of every year. The third quarter report will have more accurate information about this important revenue source. More discussion and explanation for this revenue line can be seen in the [FY 2023-24 Approved Budget Revenue Highlights section](#) (Page 83).



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### REVENUE SUMMARY

Revenues by Department	Current Budget	Revenues End of Qtr.	% Revenues	4 Prior Year Qtr. Average	Status of Revenues
Board Of County Commissioners		\$0	0.00%	0.00%	●
County Administration		\$770	0.00%	71.32%	●
Finance	\$217,007,269	\$37,501,492	17.28%	22.64%	●
Tax Administration	\$387,589,453	\$253,348,030	65.37%	79.06%	●
Legal		\$2,000	0.00%	82.33%	●
Elections	\$895,923	\$16,144	1.80%	53.96%	●
Register Of Deeds	\$8,225,225	\$2,597,580	31.58%	63.10%	●
General Services	\$2,880,273	\$2,130,703	73.98%	76.43%	●
Human Resources	\$15,000	\$4,391	29.27%	44.10%	●
Veterans Services	\$2,000	\$0	0.00%	0.00%	●
County Sheriff	\$3,729,456	\$1,742,673	46.73%	39.71%	●
Emergency Communications		\$0	0.00%	0.00%	●
Office of Emergency Services	\$19,423,535	\$10,282,827	52.94%	53.25%	●
Justice Services Department	\$1,743,132	\$415,468	23.83%	39.84%	●
Youth Home	\$903,910	\$149,845	16.58%	38.39%	●
Other Transportation	\$1,016,537	\$460,297	45.28%	30.19%	●
Engineering & Environ Svcs	\$987,344	\$282,260	28.59%	66.16%	●
Other Environmental Protection		\$0	0.00%	0.00%	●
Planning		\$0	0.00%	0.00%	●
Cooperative Extension Service	\$585,260	\$118,441	20.24%	28.21%	●
Soil And Water Conservation	\$29,788	\$0	0.00%	0.00%	●
Economic Development		\$0	0.00%	30.17%	●
Public Health	\$13,711,597	\$6,327,084	46.14%	30.58%	●
Social Services	\$35,705,240	\$18,350,509	51.39%	50.84%	●
Comm-Bd Interv And Supp Serv	\$2,298,749	\$544,214	23.67%	39.92%	●
Other Human Services		\$0	0.00%	19.09%	●
Other Education		\$0	0.00%	100.00%	●
Library	\$739,228	\$166,560	22.53%	33.42%	●
Nondepartmental	\$74,118,067	\$12,927,398	17.44%	16.22%	●
<b>Total</b>	<b>\$771,606,985</b>	<b>\$347,368,689</b>	<b>45.02%</b>	<b>55.90%</b>	

- Current year collections equal 90% or greater than 4-year same quarter average
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### Agency specific REVENUE items with red indicator include:

- **Elections:** The majority of revenue the Board of Elections is budgeted to receive is a reimbursement from the City of Durham for municipal elections in Fall of 2023. Though revenue will be received a bit later than it has been historically, all is expected to be received by quarter three.
- **Register of Deeds:** See explanation given above related to key revenues.
- **Human Resources:** Revenues received in this department are for the employee appreciation program and are funded with County vending machine income. Hybrid/remote work has led to less employees working in Durham County facilities and utilizing vending machines. Revenues were reviewed and adjusted for current fiscal year. Revenue projections will be reviewed and adjusted in the coming fiscal year relative to expected work trends.
- **Justice Services:** JSD received a mid-year \$228K grant award for Adult Drug Treatment Court expansion, and has requested reimbursement of expenditures from the federal government. That reimbursement has not yet been received. Revenues will continue to be monitored, and should be received in the third quarter.
- **Youth Home:** The Youth Home has billed \$415,650 to the state Department of Public Safety this year, but the full amount has not been posted in the County finance system. The billed amount is on target with previous fiscal year trends.
- **Engineering & Environmental Services:** The Engineering & Environmental Services current revenue budget is mostly comprised of a \$955,000 line for monthly rent from occupants of the county-owned Shoppes of Hope Valley shopping center. The County did not complete the purchase of the center until late July, and because this is the first year of county ownership, the Budget Office is still learning the cadence of rental payments from center tenants. The Budget Office will work with Open Space & Real Estate staff to closely track this revenue line and corresponding Shoppes of Hope Valley expenses, as well as ensure more accurate revenue budgeting for FY 2024-25.
- **Community Intervention and Support Services:** Community Intervention and Support Service received two Byrne discretionary grants for a total amount of \$950,000 that has increased the departmental budget by 100%. While the revenue budget has increased, CISS has just started collecting reimbursements for one of the grants and waiting final approval from the federal government to collect on the second grant, which accounts for the overall decreased revenue collection percentage for the second quarter. CISS's overall revenue collection is on pace to meet budgeted amounts for the fiscal year.
- **Library:** Library's overall revenue budget increased due to additional grant revenue related to E-Rate Reimbursement Grant. The additional grant revenue is collected toward the end of the fiscal year. As collection for grant occurs, Library's overall revenue collection will be on pace to meet budgeted amounts for the fiscal year.



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### EXPENDITURE SUMMARY

Expenses by Department	Current Budget	Expenses and Encumbrances End of Qtr.	% Expenses and Encumbrances	4 Prior Year Qtr. Average	Status of Expenses
Board Of County Commissioners	\$1,153,944	\$539,833	46.78%	55.24%	●
County Administration	\$7,099,351	\$3,775,445	53.18%	49.15%	●
Finance	\$12,503,473	\$2,270,159	18.16%	18.54%	●
Tax Administration	\$8,395,481	\$4,010,280	47.77%	54.22%	●
Legal	\$3,413,553	\$1,659,628	48.62%	49.91%	●
Court Facilities	\$675,208	\$622,124	92.14%	81.18%	●
Elections	\$3,465,113	\$2,044,299	59.00%	69.24%	●
Register Of Deeds	\$2,403,012	\$1,229,255	51.15%	50.81%	●
General Services	\$23,151,821	\$14,257,735	61.58%	62.11%	●
Information Technology	\$17,873,685	\$11,636,960	65.11%	60.52%	●
Human Resources	\$3,769,965	\$1,767,602	46.89%	54.93%	●
Budget & Management Services	\$1,011,057	\$515,321	50.97%	49.54%	●
Veterans Services	\$627,962	\$312,446	49.76%	49.20%	●
Geographic Information Systems	\$533,524	\$222,300	41.67%	43.78%	●
County Sheriff	\$49,150,735	\$26,531,007	53.98%	55.44%	●
Emergency Communications	\$1,800,208	\$1,010,824	56.15%	48.35%	●
Office of Emergency Services	\$24,851,361	\$14,863,973	59.81%	50.50%	●
Medical Examiner	\$439,950	\$175,275	39.84%	64.89%	●
Justice Services Department	\$7,546,166	\$3,041,020	40.30%	48.85%	●
Youth Home	\$2,783,171	\$1,212,262	43.56%	52.65%	●
Other Transportation	\$1,902,664	\$663,549	34.87%	36.34%	●
Engineering & Environ Svcs	\$5,932,729	\$2,975,224	50.15%	51.53%	●
Other Environmental Protection	\$113,023	\$113,023	100.00%	100.00%	●
Open Space Management	\$201,214	\$101,214	50.30%	65.46%	●
Planning	\$1,653,302	\$688,875	41.67%	43.61%	●
Cooperative Extension Service	\$2,652,290	\$1,274,324	48.05%	59.78%	●
Soil And Water Conservation	\$991,242	\$686,747	69.28%	60.72%	●
Economic Development	\$3,754,210	\$1,676,979	44.67%	64.94%	●
Public Health	\$40,729,975	\$23,795,370	58.42%	57.73%	●
Mental Health	\$9,678,652	\$9,678,652	100.00%	100.00%	●
Social Services	\$67,462,097	\$34,376,612	50.96%	53.56%	●
Comm-Bd Interv And Supp Serv	\$3,984,695	\$1,627,568	40.85%	41.88%	●
Other Human Services	\$6,550,000	\$6,550,000	100.00%	69.23%	●
Durham Public Schools	\$187,951,627	\$109,638,449	58.33%	58.33%	●
Community Colleges	\$11,707,065	\$6,829,121	58.33%	58.33%	●
Other Education	\$9,183,289	\$7,457,418	81.21%	74.40%	●
Library	\$14,477,795	\$7,936,144	54.82%	57.35%	●
Other Cultural & Recreational	\$2,816,124	\$2,358,124	83.74%	92.40%	●
Nondepartmental	\$227,216,253	\$79,505,232	34.99%	21.63%	●
<b>Total</b>	<b>\$771,606,985</b>	<b>\$389,630,376</b>	<b>50.50%</b>	<b>47.05%</b>	

- Current year expenditures are up to 2% greater than 4-year same quarter average
- Current year expenditures are between 2% to 5% greater of 4-year same quarter average
- Current year expenditures are more than 5% greater than 4-year same quarter average



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General Fund, Capital Improvement Fund and Reappraisal Reserve Fund expenditures and encumbrances through December 31, 2023, total \$389,630,376 or 50.50% of the budget. The percentage is higher than the 4-year average of 47.05%.

During the first and second quarters, expenditure percentages for some departments exceeded the 4-year average spending levels due in part to the timing of encumbered contracts. Based on past trends, as the fiscal year progresses a normal expenditure pattern usually emerges. All expenditure levels were reviewed and a brief explanation for those trending at the higher levels noted in red follows below.

### **Agency specific expenditure items in red include:**

- **Court Facilities:** The Court Facilities' expenditure line represents the budgets of seven different Court-related cost centers. The primary reason that the expenditure rate exceeded its four-year average is not a result of true overspending, but rather an increase in encumbrances (considered as expenditures/obligations) as a portion of the budget. The contracts for the Assistant DA and Assistant PD positions take up a larger portion of the overall budget when those funds are reserved at the beginning of the fiscal year. There is currently no cause for concern about overspending in this area.
- **Emergency Communications:** Emergency Communications is showing a red light indicator due to the timing of radio maintenance fee payments in previous fiscal years. Payments were disbursed later in the fiscal year in FY 2020-21 and external agency reimbursements were recorded earlier than typical in FY 2021-22, which are impacting the four-year average comparison. There is no cause for concern of overspending in this area, and the indicator should be green by the third quarter report.
- **Emergency Services:** The Emergency Medical Services division is spending at a higher rate than typical for the previous four year period. Part of that spending is for payroll costs. This division has experienced high vacancy rates in previous years, but is now closer to being fully staffed. There may need to be a realignment of personnel spending authority to cover unbudgeted costs. In addition, EMS is experiencing higher maintenance costs for ambulance repairs. This is partially a result of an aging fleet (replacements are on order), and increased industry-wide repair costs. As replacement ambulances are received, it is expected that these costs will stabilize. This division will continue to be monitored for possible budget adjustments.
- **Soil and Water Conservation:** Soil and Water Conservation has encumbered several contracts earlier than past years, as well as overspent a vehicle line repairing the brakes and tires on a county vehicle. There is no cause for concern of over-expenditure during this fiscal year. The Budget Office will continue to monitor departmental expenditures and revenues.
- **Other Human Services:** The increased expenditures in the Other Human Services department are due to a large budget transfer to another department for easier contractual management. Housing for homeless individuals during the COVID-19 pandemic has been expended from this department but will be managed by Public Health in the future.





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- **Other Education:** Unlike in previous fiscal years, the funding for Pre-K services is showing as encumbered (planned to be spent over the year) in the first quarter of FY 2023-24. In previous fiscal years, funding was encumbered at lower levels throughout the fiscal year. Therefore, the percentage spent or encumbered is displaying significantly higher than prior fiscal years. Expenditures will not exceed budgeted amounts and there is no cause for concern.
- **Nondepartmental:** The driver of this indicator is earlier transfers out postings than prior fiscal year trends. Typically, these General Funds transfers are completed (at near 100%) by fiscal year end, but this year they are posting on a more regular basis. There is no cause for concern.

### **SUMMARY**

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FY 2023-24 second quarter summary information looks steady but shows signs of concern. Major revenue sources like sales tax collection are coming in a bit lower than expected while overall expenditures are slightly higher than normal. The possible result of this is a “lower than expected” positive net difference between revenues and expenditures which could depress end of year fund balance totals. Some expenditure choices, largely around employee compensation, have and will continue to drive overall expenditure trends. But with half of the year left there is plenty of time for significant changes to this trend, and judicious decision making should mean few to no expensive surprises.

The County, in response to current trends, should be judicious in its mid-year use of General Fund fund balance for various unplanned expenditure needs. To prepare for any major revenue or expenditure differences the County should review all current year spending and limit additional spending where possible. By the end of the third quarter significant “major” revenue sources will have been collected and expenditure trends solidly established. The third quarter report should identify and confirm any general trending attributes the County may be experiencing.