



Quarterly Budget Report

Third Quarter of Fiscal Year 2023-24



OVERVIEW

The accompanying tables summarize the recognized revenues and expenditures for Durham County's General Fund, Capital Improvement Fund, and Reappraisal Reserve Fund through March 31, 2024. Please note that 4-year second quarter averages have been provided for comparison. These averages reflect what was reported in the third quarter report for the four preceding fiscal years.

A dashboard representation of third 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

Through March 31, 2024, the County collected \$547,721,092 or 70.78% 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 this quarter of the fiscal year.

Current year property tax collection, the largest single revenue source for Durham County, is trending close to the 3rd Quarter 4-year average (101.18% collected, vs 102.07% respectively). Vehicle property tax collection is also slightly under the 4-year average, but is no cause for concern as overall revenue collection trending looks positive, and actual property tax collection continues to grow at a strong pace.

Sales Tax revenue collection continues to lag 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 1st, 2nd, and most of the 3rd quarter of the current fiscal year. 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



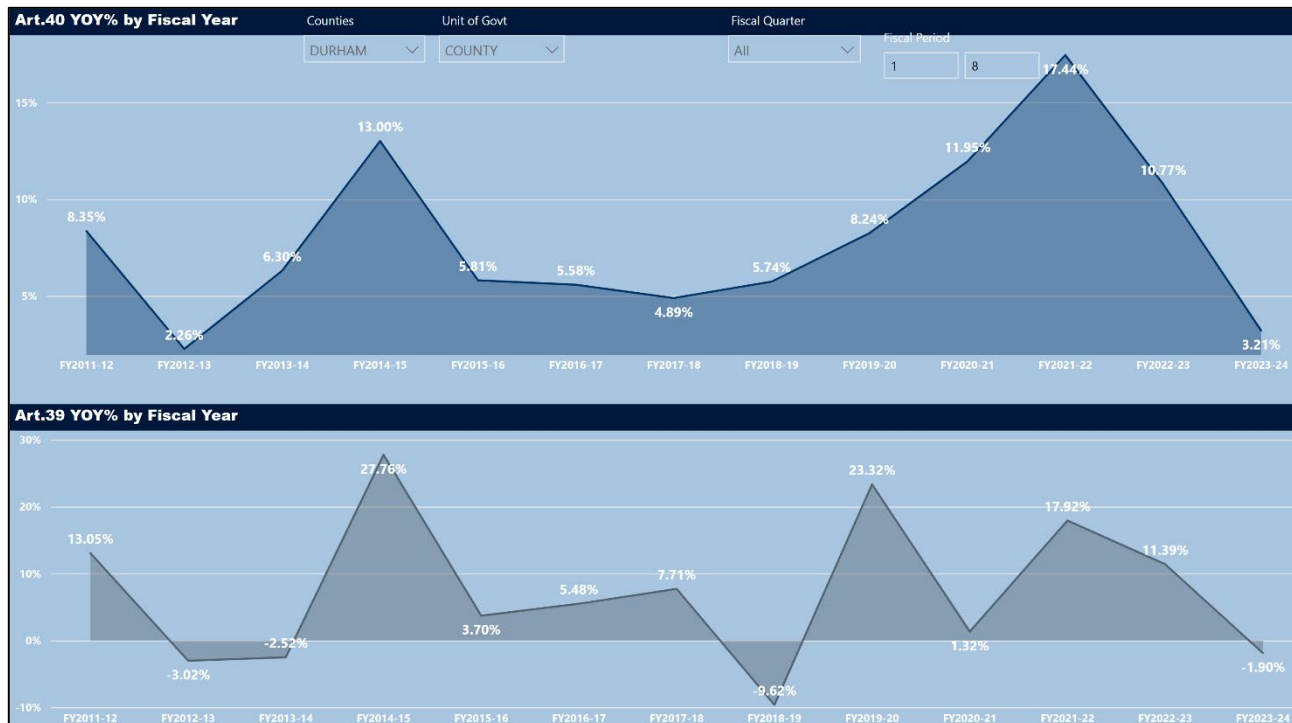
Quarterly Budget Report

Third Quarter of Fiscal Year 2023-24



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 3.2% over the same eight months in previous years, while article 39 sales tax revenue actually decreased by 1.9% over that same time period. The Article 39 sales tax reduction is magnified by large increases in refunds for those eight 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 (see the decreased growth year over year from FY 2021-22 to present). 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 peaked at more than \$10M in FY 2021-22. However, the first three quarters of 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.



Quarterly Budget Report

Third Quarter of Fiscal Year 2023-24



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%	43.69%	●
Article 39 (1 Cent)	\$34,572,422	\$16,158,990	46.74%	58.52%	●
Article 40 (1/2 Cent)	\$22,664,769	\$11,684,433	51.55%	64.86%	●
Article 42 (1/2 Cent)	\$25,911,267	\$12,690,970	48.98%	61.81%	●
Article 44 (1/2 Cent)		\$85	0.00%	0.00%	●
Article 46 (1/2 Cent)	\$23,100,201	\$11,206,674	48.51%	62.89%	●
City Sales Tax ILA	\$21,659,659	\$13,352,602	61.65%	69.51%	●
Deed Registration and Transfer Fees	\$8,000,000	\$3,748,966	46.86%	87.42%	●
Duke EMS Support - Comm. Health Fund	\$2,936,630	\$2,983,707	101.60%	87.65%	●
EMS Patient Fees	\$15,183,483	\$10,595,432	69.78%	68.93%	●
Fund Balance Appropriated	\$68,541,942	\$0	0.00%	0.00%	●
Intergovernmental Items	\$62,918,735	\$42,813,192	68.05%	60.47%	●
Investment Revenue	\$3,150,000	\$0	0.00%	106.73%	●
Local Occupancy Tax (General Fund)	\$4,225,000	\$3,045,142	72.07%	66.31%	●
Local Occupancy Tax (NCMLS)	\$500,000	\$500,000	100.00%	69.03%	●
Other General Funds Revenues	\$7,468,967	\$6,528,512	87.41%	88.44%	●
Property Tax (All Except Vehicle)	\$355,923,008	\$360,129,680	101.18%	102.07%	●
Property Tax (Vehicles Only)	\$23,205,548	\$16,068,506	69.24%	72.06%	●
Property Tax Collection Fees	\$2,278,897	\$2,268,552	99.55%	113.19%	●
Sheriff Fees	\$500,000	\$423,236	84.65%	60.47%	●
Solid Waste Management Fee Co	\$2,284,531	\$2,342,596	102.54%	97.98%	●
State Hold Harmless Funds	\$12,000,000	\$8,352,830	69.61%	286.66%	●
Transfers From Other Funds	\$74,118,067	\$21,472,976	28.97%	47.02%	●
Total	\$773,843,125	\$547,721,092	70.78%	78.48%	

- 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

Key revenue items with red indicator include:

- **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, in the first three quarters of FY 2023-24, collections as a percentage of budget are down from the previous years, largely related to the slowdown in home sales due



Quarterly Budget Report

Third Quarter of Fiscal Year 2023-24



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. The Manager's Recommended FY 2024-25 Budget further reduces the fee budget from \$8M to \$6M.

- **State Hold Harmless Funds:** Over the past few fiscal years, there has been significant new revenue from this source. These funds are a result of a change made in FY 2007-08, when the State legislature agreed to hold counties "harmless" for any loss of income from Article 44 sales tax that had been used by local governments previously to cover their Medicaid expenses. But FY 2023-24 has seen an unexpected increase in Medicaid expenses at the state level along with slower statewide Article 44 sales tax growth. It is not expected that the County will receive the anticipated projection amount for this year. As a result, the budget for FY 2024-25 is being adjusted accordingly, with a net effect of \$3 million less revenue available for the General Fund in the upcoming fiscal year.
- **Investment Revenue:** Investment revenue for the fiscal year has not been posted.
- **Transfers from Other Funds:** The red light in this line is a result of the timing of transfers to the Capital Improvement Plan fund. Budgeted transfers should occur by year-end, and are not a cause for concern.



Quarterly Budget Report

Third Quarter of Fiscal Year 2023-24



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		\$0	0.00%	82.82%	●
Finance	\$218,121,460	\$79,333,793	36.37%	47.50%	●
Tax Administration	\$387,589,453	\$383,496,184	98.94%	100.01%	●
Legal		\$2,000	0.00%	188.06%	●
Elections	\$895,923	\$846,649	94.50%	89.80%	●
Register Of Deeds	\$8,225,225	\$3,860,116	46.93%	86.99%	●
General Services	\$2,880,273	\$2,797,927	97.14%	92.67%	●
Human Resources	\$15,000	\$6,488	43.25%	62.22%	●
Veterans Services	\$2,000	\$2,174	108.70%	52.41%	●
County Sheriff	\$4,169,090	\$2,773,129	66.52%	73.42%	●
Emergency Communications		\$0	0.00%	0.00%	●
Office of Emergency Services	\$19,423,535	\$14,220,248	73.21%	73.08%	●
Justice Services Department	\$1,743,132	\$848,160	48.66%	67.71%	●
Youth Home	\$903,910	\$427,394	47.28%	55.03%	●
Other Transportation	\$1,016,537	\$615,593	60.56%	37.82%	●
Engineering & Environ Svcs	\$1,135,366	\$441,516	38.89%	92.27%	●
Other Environmental Protection		\$0	0.00%	0.00%	●
Public Information		\$770	0.00%	0.00%	●
Planning		\$0	0.00%	0.00%	●
Cooperative Extension Service	\$585,260	\$172,726	29.51%	50.59%	●
Soil And Water Conservation	\$44,788	\$0	0.00%	12.50%	●
Economic Development		\$0	0.00%	52.51%	●
Public Health	\$14,135,156	\$8,604,298	60.87%	45.06%	●
Social Services	\$35,750,974	\$27,504,185	76.93%	74.87%	●
Comm-Bd Interv And Supp Serv	\$2,348,749	(\$68,427)	-2.91%	64.65%	●
Other Human Services		\$0	0.00%	22.19%	●
Community Colleges		\$28,874	0.00%	0.00%	●
Other Education		\$0	0.00%	100.00%	●
Library	\$739,228	\$334,318	45.23%	52.62%	●
Nondepartmental	\$74,118,067	\$21,472,976	28.97%	47.03%	●
Total	\$773,843,125	\$547,721,092	70.78%	78.48%	

- 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



Quarterly Budget Report

Third Quarter of Fiscal Year 2023-24



Agency specific REVENUE items with red indicator include:

- **Legal:** County Attorney-Legal received revenue for DCo Cares that was not budgeted and has created an artificially elevated four-year average.
- **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.
- **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 has worked with Open Space & Real Estate staff to closely track this revenue line and corresponding Shoppes of Hope Valley expenses, and the Manager's FY 2024-25 Recommended Budget has reduced the revenue line to \$545,000.
- **Cooperative Extension Service:** In FY 2023-24, Cooperative Extension received an intergovernmental grant for Food Security related issues, as well as an substantial increase to a federal grant for the Welcome Baby program. These grants have increased the overall revenue budget for the department, causing a lower collection rate compared to the four-year average. These grant funds will continue to be collected throughout the remainder of the fiscal year. There is no cause for concern.
- **Soil and Water Conservation:** The State Department of Agriculture (Division of Soil and Water Conservation) reimburses the County for a portion of the cost of the department's Natural Resource Conservationist FTE. In previous years, the state offered quarterly reimbursements, but now reimburses counties only one time per fiscal year. Durham County Soil and Water expects to receive its state reimbursement in the fourth quarter of FY 2023-24. The department also received a \$15K two-year state grant to update the Durham County Farmland Protection Plan, and the department does not expect to collect the reimbursement until next fiscal year.
- **Community Intervention and Support Services:** CISS (Bull City United) entry for revenue is entered incorrectly and has created an artificially negative collection for revenue. Finance has been made aware and is correcting entries. Once entries are corrected, CISS is on pace to collect all budgeted revenues.
- **Nondepartmental:** The nondepartmental business area has had no revenue collections since the 2nd quarter. Since there has been no revenue collection, the revenue collection percentage is less than previous fiscal years. The nondepartmental revenue will be closely monitored to ensure that the necessary revenue is collected.



Quarterly Budget Report

Third Quarter of Fiscal Year 2023-24



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	\$1,157,444	\$741,923	64.10%	73.59%	●
County Administration	\$6,436,352	\$4,562,519	70.89%	72.39%	●
Finance	\$12,503,473	\$3,333,868	26.66%	27.43%	●
Tax Administration	\$8,654,481	\$6,090,043	70.37%	74.74%	●
Legal	\$3,413,553	\$2,627,913	76.98%	72.34%	●
Court Facilities	\$675,208	\$644,979	95.52%	84.09%	●
Elections	\$3,637,592	\$2,911,550	80.04%	81.07%	●
Register Of Deeds	\$2,403,012	\$1,651,529	68.73%	77.81%	●
General Services	\$23,151,821	\$17,734,328	76.60%	81.16%	●
Information Technology	\$17,873,685	\$14,950,285	83.64%	78.53%	●
Human Resources	\$3,766,781	\$2,579,757	68.49%	76.34%	●
Budget & Management Services	\$1,007,557	\$751,079	74.54%	72.46%	●
Veterans Services	\$627,962	\$460,173	73.28%	71.02%	●
Geographic Information Systems	\$533,524	\$355,680	66.67%	72.97%	●
County Sheriff	\$49,850,193	\$37,321,226	74.87%	77.56%	●
Emergency Communications	\$1,800,208	\$1,314,228	73.00%	75.27%	●
Office of Emergency Services	\$24,851,361	\$20,901,330	84.11%	71.99%	●
Medical Examiner	\$439,950	\$437,075	99.35%	73.41%	●
Justice Services Department	\$7,546,166	\$4,400,356	58.31%	67.62%	●
Youth Home	\$2,783,171	\$1,837,841	66.03%	72.01%	●
Other Transportation	\$1,902,664	\$1,014,438	53.32%	51.50%	●
Engineering & Environ Svcs	\$5,932,729	\$4,054,362	68.34%	71.16%	●
Other Environmental Protection	\$113,023	\$113,023	100.00%	100.00%	●
Open Space Management	\$201,214	\$101,214	50.30%	66.82%	●
Public Information	\$841,183	\$683,885	81.30%	0.00%	●
Planning	\$1,653,302	\$1,102,200	66.67%	72.97%	●
Cooperative Extension Service	\$2,652,290	\$1,948,301	73.46%	76.83%	●
Soil And Water Conservation	\$1,006,242	\$845,638	84.04%	74.17%	●
Economic Development	\$3,754,210	\$2,215,731	59.02%	69.82%	●
Public Health	\$41,549,444	\$30,778,619	74.08%	71.87%	●
Mental Health	\$9,678,652	\$9,678,652	100.00%	100.00%	●
Social Services	\$67,507,831	\$49,349,204	73.10%	71.03%	●
Comm-Bd Interv And Supp Serv	\$4,034,695	\$2,910,224	72.13%	72.00%	●
Other Human Services	\$6,550,000	\$500,000	7.63%	74.70%	●
Durham Public Schools	\$187,951,627	\$156,626,356	83.33%	83.24%	●
Community Colleges	\$11,707,065	\$9,755,888	83.33%	83.33%	●
Other Education	\$9,183,289	\$8,060,647	87.78%	91.68%	●
Library	\$14,477,795	\$10,826,862	74.78%	77.58%	●
Other Cultural & Recreational	\$2,816,124	\$2,358,124	83.74%	96.27%	●
Nondepartmental	\$227,216,253	\$100,053,269	44.03%	51.94%	●
Total	\$773,843,125	\$518,584,319	67.01%	70.26%	

- 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



Quarterly Budget Report

Third Quarter of Fiscal Year 2023-24



General Fund, Capital Improvement Fund and Reappraisal Reserve Fund expenditures and encumbrances through March 31, 2024, total \$518,584,319 or 67.01% of the budget. The percentage is lower than the 4-year average of 70.26%.

During the three 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.
- **Information Technology:** The Information Technology department is spending at a higher rate than in the previous four-year period. Operating expenditures have increased for reasons that include inflation cost increases for maintenance/repair of equipment. The expenses are also in the personnel line, and that was due to pay-plan adjustment compared to the previous years and the 4-year average. The Budget Office and Information Technology will continue to monitor departmental expenditures.
- **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.
- **Medical Examiner:** This line includes a larger-than-average encumbrance amount compared to the 4-year average. The actual expenses (less encumbrances) reflect similar trending levels to the historical average. This line will be closely monitored since examination/autopsy costs are highly variable and difficult to predict, but expenses are not currently projected to exceed budgeted amounts.
- **Public Information:** Public Information has moved out of the County Administration business Area to its own business area. With no historical expenditure data as its own business area, Public Information will continue to look as if it is overexpending its budget until the



Quarterly Budget Report

Third Quarter of Fiscal Year 2023-24



department has enough historical expenditures to make accurate comparisons. There is no cause for concern with overexpenditure in PIO.

- **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, battery, and tires on a county vehicle, as well as telephone line and operational travel lines that were reduced in FY 2023-24. However, there is no cause for concern of overexpenditure during this fiscal year. The Budget Office will continue to monitor departmental expenditures and revenues.
- **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

FY 2023-24 third quarter summary information looks steady but shows signs of concern. Major revenue sources like sales tax collection are continuing to track lower than expected, although overall expenditures are now trending slightly lower than the four-year average. 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. With most of the fiscal year completed, there is little time available to significantly change course. Where possible expenditures for the current fiscal year should be limited to offset lower than expected revenue collection.

The County, in response to current trends, should be judicious in its continued “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. Third quarter trending does nothing to change this outlook. For the remaining three months of the fiscal year, the County should be prepared to severely limit any new spending requests as well as limit rollover budget expenditures where possible.