



Memorandum

TO: Lee D. Garrity, City Manager
FROM: Patrice Y. Toney, Budget and Evaluation Director
DATE: September 29, 2017
SUBJECT: First Quarter Update on FY 2018-19 Budget
CC: Ben Rowe, Assistant City Manager
 Lisa Saunders, Chief Financial Officer

Budget and Evaluation

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During their FY 2016-17 budget review, the Mayor and City Council directed staff to provide quarterly updates on the upcoming year’s budget. Typically, the Budget and Evaluation Office provides an early forecast of the upcoming year’s general fund budget in January, prior to the kick-off of the City’s internal budget development process. In late March, the budget staff presents a trial balanced budget that provides a more refined forecast of general fund revenues and expenditures and identifies potential measures to close any projected budget gaps. City staff also may include updates on the financial outlooks of select major enterprise funds such as transit, stormwater, and off-street parking.

Because the City does not collect most of its general purpose revenues such as property and sales taxes until the last two quarters of the year, City staff typically have not prepared detailed projections for the current and upcoming years’ budgets. However, the staff monitors current year revenues and expenditures and identifies any issues that could have an impact on the upcoming year’s budget.

This memo provides a recap of FY 2016-17 year-end general fund revenues, expenditures, and fund balance and outlines issues identified by staff that could impact the FY 2018-19 budget.

FY 2016-17 Year-End General Fund Revenues, Expenditures, and Fund Balance

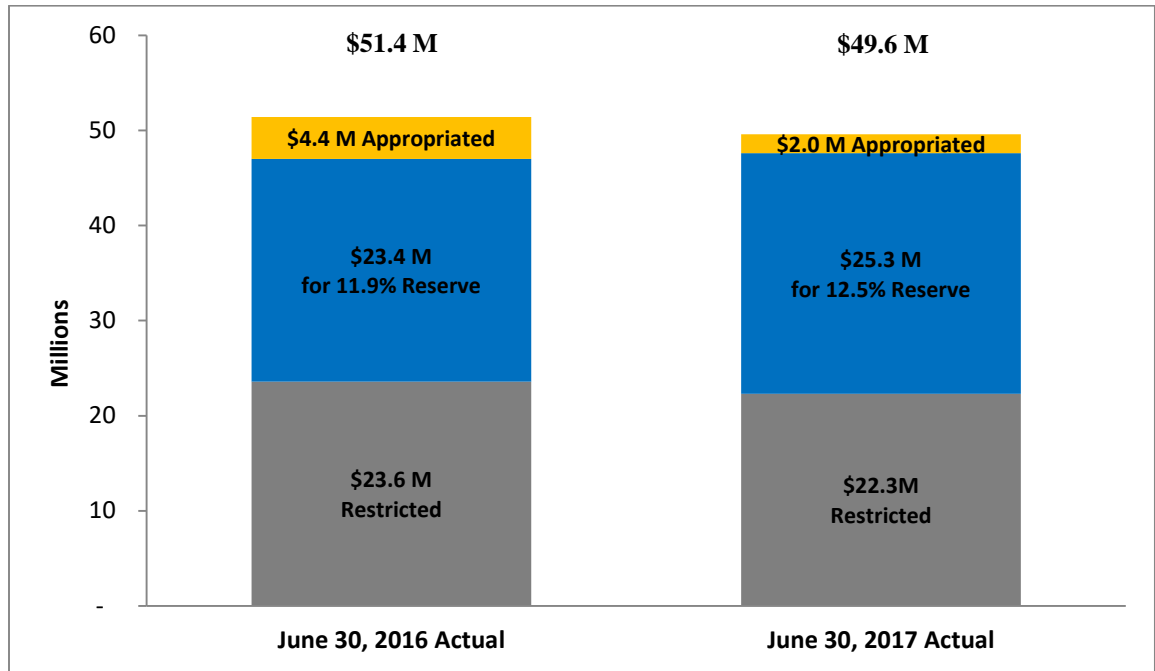
The following table summarizes actual general fund revenues and expenditures for FY 2016-17. Actual revenue came in over the (amended) budgeted amount by \$3,960. Total expenditures came in under budget by \$4.8 M. The City used 1.9 M in appropriated fund balance to cover one-time expenditures.

	Original Budget FY 16-17	Amended Budget FY 16-17	Actual FY 16-17	Amended Bud vs. Actual \$ Change
Revenues				
Property Taxes	\$98,794,760	\$98,794,760	\$99,401,121	606,361
Sales Taxes	33,479,390	33,479,390	34,349,228	869,838
Licenses and Permits	5,498,780	5,748,780	6,154,511	405,731
Intergovernmental	21,797,100	21,797,100	21,093,489	-703,611
Charges for Services/Other	24,481,271	24,803,337	23,836,300	-967,037
Transfers from Other Funds	8,694,949	8,694,949	8,487,627	-207,322
TOTAL REVENUES	\$192,746,250	\$193,318,316	\$193,322,276	-3,960
Expenditures				
Personnel	\$134,580,020	\$133,697,180	\$134,575,029	-877,849
Supplies and Services	45,541,306	48,831,362	44,445,429	4,385,933
Capital Outlay	8,533,860	8,622,755	7,734,706	888,049
Support to Other Funds	8,456,414	8,814,014	8,450,711	363,303
TOTAL EXPENDITURES	\$197,111,600	\$199,965,311	\$195,205,875	4,759,436
Addition/-Use of Fund Balance	-4,365,350	-6,646,995	-1,883,599	4,763,396



The City of Winston-Salem has adopted a financial policy to maintain a minimum unassigned fund balance of 14% of estimated expenditures in the General Fund. The following chart provides the change in general fund balance as of June 30, 2017. At year end, unassigned fund balance was 12.5% of 2018 estimated expenditures. This is due to outstanding reimbursements from other governments and other funds which increased by \$2.8 million. These amounts are reserved in stabilization of state statute in the general fund. Overall, general fund balance decreased from \$51.4 million to \$49.6 million.

GENERAL FUND BALANCE AT JUNE 30, 2017 COMPARED TO JUNE 30, 2016



Potential Issues Impacting the FY 2018-19 Budget

WS Fire Department SAFER Grant

The Winston-Salem Fire Department has been awarded a Staffing for Adequate Fire and Emergency Response (SAFER) Grant from the U.S. Department of Homeland Security. The intent of the grant is to assist career fire departments with improving their compliance with the National Fire Protection Association’s Standard for the Organization and Deployment of Fire Suppression Operations, Emergency Medical Operations, and Special Operations to the Public by Career Fire Departments. If approved by the Mayor and City Council, the SAFER Grant would provide funding assistance to hire fifteen new firefighters for three years. The terms of the grant require a local match of 25% for the first year, 25% for the second year, and 65% for the third year. The estimated local match for FY 2018-19 would be approximately \$176,000.

The federal contribution to the proposed project over the three-year period of performance is \$1,306,470, and the local match is approximately \$813,000. The City’s contribution can be spread over four fiscal years: \$70,000 in FY 2017-18, \$176,000 in FY 2018-19, \$286,000 in FY 2019-20, and \$281,000 in FY 2020-21. There would also be approximately \$90,000 required for training and equipment in FY 2017-18.

Duke Energy Rate Increase

On August 25, 2017, Duke Energy Carolinas made a request before the North Carolina Utilities Commission (NCUC) to increase rates. Recent work to modernize power plants and generate cleaner electricity, manage coal ash, and improve reliability represents a few reasons for this request to change customer rates. Duke Energy is seeking to begin charging the higher rates by April 1, 2018 but not later than May 1, 2018.

The FY 2017-18 budget is sufficient to cover electric expenses with no adjustments needed based on Duke Energy's proposed rate increase. The actual rate increase will be fully reflected in the FY 2018-19 budget and could range from 4% to the full 11.4%. It is projected that the actual budget increase in FY 2018-19 will be less than 5% since the rate increase will be phased in over at least a three-year period.

Bond Project Operating Costs

The two remaining bond projects that could potentially have additional operating costs in FY 2018-19 are renovations to the Public Safety Center and completion of Union Station.

Renovations to the Public Safety Center should not increase the operating costs for the building since the updates will not increase the overall square footage of the building. While it is reasonable to expect some energy savings once the renovation project modernizes electrical, HVAC and plumbing systems, it is difficult to forecast exactly what those will be in terms of operating impact.

Union Station is expected to be completed in the fall of 2018. The total increase in operating costs is estimated at \$177,000. This includes costs for custodial services, utilities, premises maintenance, and security. A prorated portion of these costs will be included in the FY 2018-19 budget with a full year of operating impacts included in FY 2019-20.

Public Safety Supplemental Pay Adjustment

In February 2016, the Mayor and City Council approved a public safety supplemental pay plan that increased employee salaries by 2% for sworn police and certified fire personnel. The adopted FY 2017-18 budget includes a third round of supplemental pay adjustments that would increase sworn police and fire personnel salaries by an additional 2%, effective January 1, 2018. Based on the same schedule of adjustments, the full year impact of the FY 2017-18 adjustment, as well as a fourth round of adjustments, would cost approximately \$1.3 million. These adjustments are key to the City's recruitment and retention efforts in the police and fire departments.

One-Third Position Classification and Compensation Study

In FY 2017-18, the City hired Springsted Incorporated to conduct a compensation and classification study for one-third of the City's workforce, which included laborer and trades positions, a total of 731 employees. During the process, the City decided to include sworn police officer positions in the study, which added an additional 502 employees. Combined, the study reviewed 1,233 positions representing one-half of the City's workforce. Currently, Springsted is conducting a comprehensive classification and compensation study on the remaining one-half of the City's positions with a projected completion date of February 2018. The study includes a salary survey, which has been distributed to all the positions being studied.

The final report may include recommendations to raise the minimum rates of pay, increase pay based on the study findings, and increase the minimum hourly rate of pay to \$15/hour by 2021.

Mid-year Pay Adjustment

In January 2018, the Human Resources Department will take a resolution to City Council to raise the minimum rate of pay from \$11.25/hour to \$12.50/hour. This increase will impact 60 City employees and will cost \$70,000 annualized.