



Budget and Evaluation

P.O. Box 2511
 Winston-Salem, NC 27102
 CityLink 311 (336-727-8000)
 Fax 336-734-1224

Memorandum

TO: Mayor and City Council
FROM: Ben Rowe, Assistant City Manager
 Patrice Y. Toney, Budget and Evaluation Director
DATE: November 19, 2018
SUBJECT: First Quarter Update on FY 2019-20 Budget
CC: Lee Garrity, City Manager
 Lisa Saunders, Chief Financial Officer

During their FY 2017-18 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 at the end of the first quarter. 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 2017-18 year-end general fund revenues, expenditures, and fund balance and outlines issues identified by staff that could impact the FY 2019-20 budget.

FY 2017-18 Year-End General Fund Revenues, Expenditures, and Fund Balance

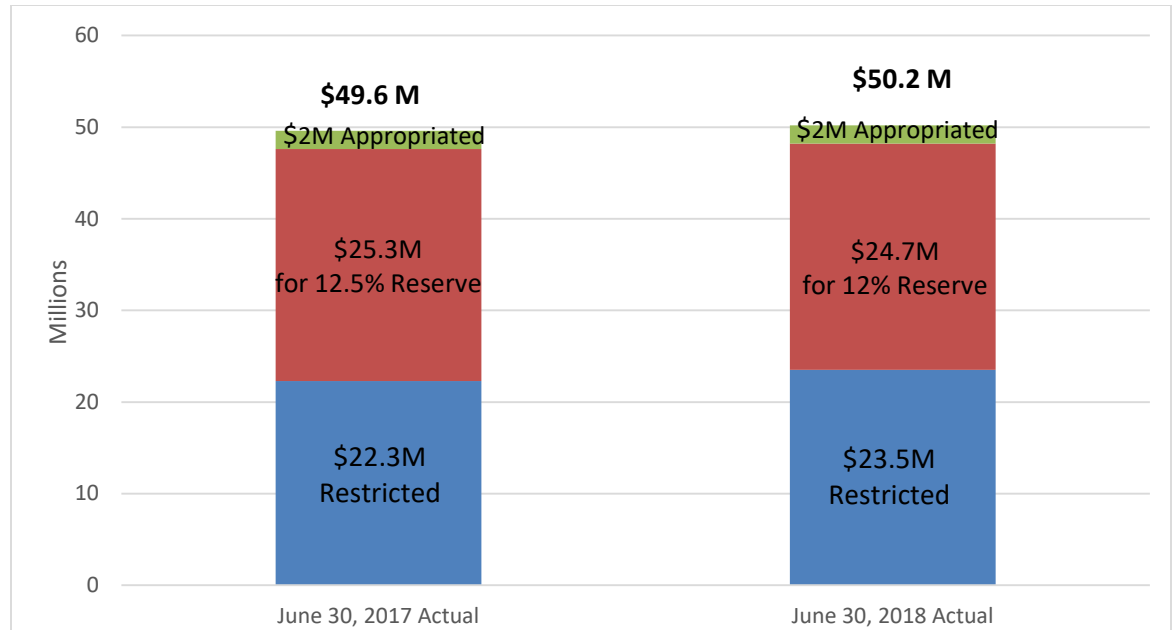
The following table summarizes actual general fund revenues and expenditures for FY 2017-18. Actual revenue came in over the (amended) budgeted amount by \$537,043. Total expenditures came in under budget by \$4,414,914.

	Original Budget FY 17-18	Amended Budget FY 17-18	Actual FY 17-18	Amended Bud vs. Actual \$ Change
Revenues				
Property Taxes	\$105,337,870	\$105,337,870	\$105,470,416	132,546
Sales Taxes	36,481,780	36,481,780	36,248,584	-233,196
Licenses and Permits	5,529,000	5,529,000	6,115,275	586,275
Intergovernmental	21,186,240	21,186,240	21,221,202	34,962
Charges for Services/Other	23,733,000	25,211,354	25,354,459	143,105
Transfers from Other Funds	8,534,400	8,561,640	8,434,991	-126,649
TOTAL REVENUES	\$200,802,290	\$202,307,884	\$202,844,927	537,043
Expenditures				
Personnel	\$140,280,160	\$140,679,800	\$141,151,308	-471,508
Supplies and Services	47,360,567	50,607,135	47,549,571	3,057,564
Capital Outlay	8,491,060	8,476,389	7,868,756	607,633
Support to Other Funds	6,705,503	6,869,603	5,648,378	1,221,225
TOTAL EXPENDITURES	\$202,837,290	\$206,632,927	\$202,218,013	4,414,914
Addition/-Use of Fund Balance	-2,035,000	-4,325,043	626,914	4,951,957



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, 2018. At year end, unassigned fund balance was 12% of 2019 estimated expenditures. Due from other funds was \$3.7 million because of reimbursements outstanding. These amounts are reserved in stabilization of state statute in the general fund. Overall, general fund balance increased from \$49.6 million to \$50.2 million.

GENERAL FUND BALANCE AT JUNE 30, 2018 COMPARED TO JUNE 30, 2017



Potential Issues Impacting the FY 2019-20 Budget

Property Tax Increase for Bonds

In November 2018, citizens approved a bond package of \$122 million. Based on the debt model, the City’s Finance Department recommends an increase of 4 cents on the city property tax rate for fiscal year 2019-20.

Classification and Compensation Study and Mid-year Pay Adjustment

In FY 2016-17, 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 initially reviewed 1,233 positions representing one-half of the City’s workforce. In FY 2017-18, the study included the remainder of the workforce. The final report included 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.

In May 2018, the Human Resources Department took a resolution to City Council to raise the minimum rate of pay from \$11.25/hour to \$12.50/hour. Increases based on the second round of the study will go into effect on April 8, 2019. The full-year impact from the classification and compensation study will be included in the FY 2019-20 budget.

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 2018-19 budget includes a fourth round of supplemental pay adjustments that would increase sworn police and certified fire personnel salaries by an additional 2%, effective January 1, 2019. Based on the same schedule of adjustments, the full year impact of the FY 2018-19 adjustment, as well as a fifth 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.

Bond Project Operating Costs

The three remaining bond projects that could have an operating impact in FY 2019-20 are renovations to the Public Safety Center, completion of Union Station, and opening Parkland Pool.

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 FY 2018-19 budget included an increase in operating costs for a partial year totaling \$119,780. This includes costs for custodial services, utilities, premises maintenance, and security. A full year of operating cost will be included in FY 2019-20, with an increase of \$57,220 over the current budget. There will also be \$12,000 in revenue for the year from leasing space to Elizabeth's Pizza.

Due to ongoing construction, the FY 2018-19 adopted budget included only a partial year of funding for Parkland Pool. Construction is scheduled to be complete in late 2018, and the pool will be open for a full year of service in FY 2019-20. As a result, full funding will need to be restored for this location, increasing Aquatics expenditures by \$32,000.

Fire Recruit Classes

In October 2017, the Mayor and City Council approved a resolution accepting a 2016 Staffing for Adequate Fire and Emergency Response (SAFER) Grant from the United States Department of Homeland Security providing funding for fifteen firefighter positions for three years. The grant requires the City make a good faith effort to maintain the level of staffing at the awarding of the grant. To meet this requirement and to meet departmental needs due to turnover and retirements, the City will fill multiple fire recruit classes over the next several years. Historically, each fiscal year has had approximately one fire recruiting class cycle, with funding covered by salary savings within the department. Funds will be allocated for one fire recruit class in the FY 2019-20 budget.

Recreation and Parks

A number of items are expected to increase the Recreation and Parks budget in FY 2019-20. In September 2018, the City Council approved changes to the management contract for Reynolds Park Golf Course and to the City-managed operations of Winston Lake Golf Course. These changes will add \$320,460 to the base budget in FY 2019-20. Additionally, a new Showmobile will need to be purchased as the current unit is in bad condition. A new unit is anticipated to cost \$155,800, resulting in a lease payment of \$31,160 in FY 2019-20. In total, these items add \$383,620 to the base budget for Recreation and Parks.

TURN Program Administrative Costs

When the TURN program was created, the resolution authorized a total of \$400,000 in 2014 GO bonds for administrative expenses over the life of the program funding. During FY 2019, we anticipate we will meet this spending cap. The costs for administration totaled \$97,340 in FY 2017 and \$96,810 in FY 2018. The budgeted amount for FY 2019 increased to include a second position for a total of \$256,460. The FY 2019-20 budget will need to address how to pay for these administrative costs going forward.

Affordable Housing – Housing Finance Assistance Fund

The Housing Finance Assistance Fund accounts for City funds that are used for housing development activities, including homebuyer assistance, new housing construction, neighborhood revitalization, and housing rehabilitation. Currently the primary source of revenue for this fund comes from housing loan repayments and investment income.

From FY 1985-86 through FY 2000-01 the City designated 20% of the Article 40 one-half cent sales tax to this fund. On average, the designation amounted to \$678,872 and ranged from \$479,519 in FY 1986 up to \$924,696 in FY 2001. The designation was eliminated in FY 2000-01, when the City reallocated the sales tax transfer from the Housing Finance Assistance Fund to the General Fund to mitigate the impacts from the State’s budget crisis.

The fund projection for the Housing Finance Assistance Fund shows a declining cash balance since no new revenue is currently designated to the fund. The table below shows the revenue generated from loan repayments (program income) each year in the Housing Finance Assistance Fund. This information can also be found within the fund projection.

Revenues from loan repayments:	Actual FY 2013	Actual FY 2014	Actual FY 2015	Actual FY 2016	Actual FY 2017	Actual FY 2018
Program Income	\$ 273,323	\$655,566	\$584,626	\$214,973	\$326,614	\$483,213
Charges for Services – Late Fees	706	789	822	1,030	1,047	762

In order to provide a dedicated revenue stream to the Housing Finance Assistance Fund, the Mayor and City Council could designate a portion of the property tax or Article 40 sales tax to the fund. Any reallocation would result in a reduction in General Fund revenues. In order to balance the budget, the City would need to reduce services or replace the lost revenue from the General Fund with an increase in property tax. Below are the projected revenues that could be generated from each type of designation.

	No designation (only revenue from program income)	Quarter cent designation of property tax	Half cent designation of property tax	20% of Article 40 one-half cent sales tax
Revenue generated from the following designations:	\$453,888	\$547,575	\$1,095,150	\$1,615,600

- Revenue projections based on FY 2018-19 tax rate and program income projections.

In addition to spending from the Housing Finance Assistance Fund, the City allocates a portion of its allocation of HUD federal funds to affordable housing. The table below compares per capita spending on affordable housing for FY 2017-18 among the largest NC cities.

Per capita spending on affordable housing, FY 2017-18:

	Total HUD Allocation FY 2017-18:						Per Capita Spending (Local & Federal)
	Population	Local Funds	CDBG	HOME	HOPWA (Housing Opportunities for People with AIDS)	ESG	
Winston-Salem	244,605	\$3,308,516	\$1,973,957	\$933,881	\$0	\$179,756	\$26.15
Greensboro	290,222	\$4,314,213	\$1,972,442	\$1,261,159	\$370,437	\$182,064	\$27.91
Durham	267,743	\$5,738,527	\$1,798,016	\$822,366	\$335,316	\$164,728	\$33.09
Raleigh	464,758	\$6,300,000	\$2,872,414	\$1,070,124	\$0	\$256,647	\$22.59
Charlotte	859,035	\$15,000,000	\$5,364,974	\$2,330,231	\$2,362,276	\$481,758	\$29.73

- Population estimates, July 1, 2017, from US Census Bureau QuickFacts
- Local funds include GO bonds dedicated to housing or spending from a local affordable housing fund
- Federal funding includes total HUD allocation for FY 2017-18. Municipalities may not spend entire allocation on affordable housing activities.

Stormwater

Due to a combination of flat revenues and increasing expenses for operations and capital needs, the Stormwater Management Fund cash flow projection shows a depletion of fund balance by FY 2023. Stormwater fees were last increased over ten years ago, in FY 2007-08. The graph below shows two scenarios:

- Blue – no rate increase
- Red – 8% annual rate increase through FY 2021 and 3% annual increase thereafter

