



Budget and Evaluation

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Memorandum

TO: Mayor Joines, Mayor Pro Tempore Adams, and Members of the City Council
FROM: Scott Tesh, Budget and Performance Management Director
DATE: November 8, 2021
SUBJECT: First Quarter Update on FY 2020-21 Year-End and FY 2022-23 Budget Issues
CC: Lee Garrity, City Manager
Ben Rowe, Assistant City Manager
Lisa Saunders, Chief Financial Officer

Annually, the Budget and Performance Management Department provides quarterly updates on potential issues impacting the upcoming year's budget. Prior to the kick-off of the City's internal budget development process, the budget staff will give an early forecast of the upcoming year's general fund budget in January. 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 may also 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 continues to monitor 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 2020-21 year-end general fund revenues, expenditures, and fund balance and outlines issues identified by staff that could impact the FY 2022-23 budget.

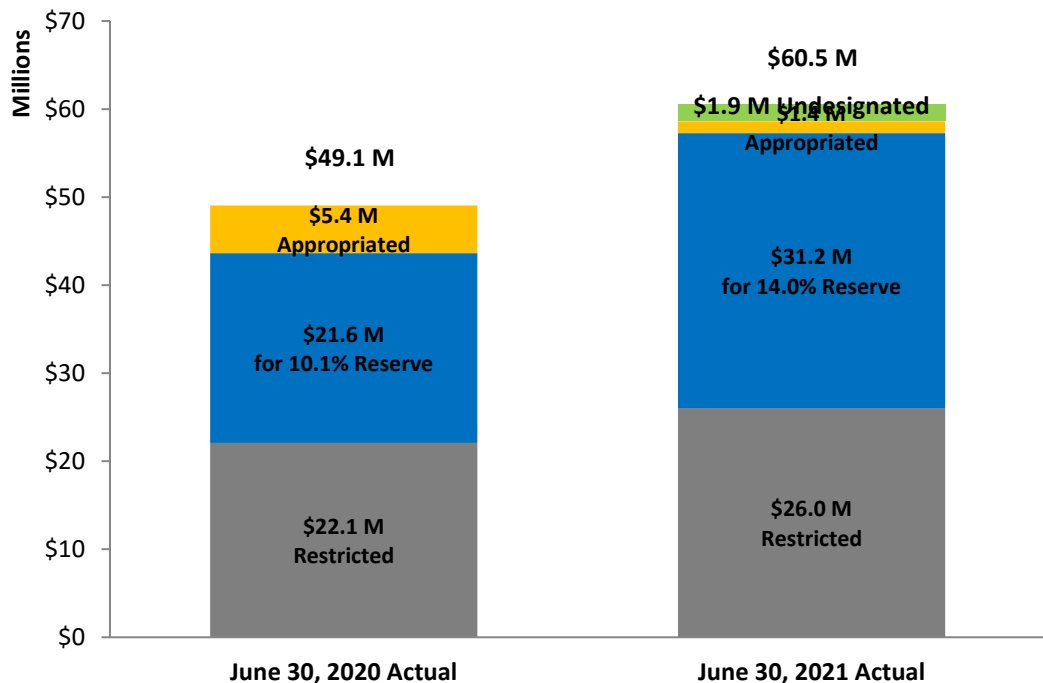
FY 2020-21 Year-End General Fund Revenues, Expenditures, and Fund Balance

The following table summarizes actual general fund revenues and expenditures for FY 2020-21. Actual revenues came in over the amended budgeted amount by \$9.9 million. Total expenditures came in under budget by \$10.1 million.

| | Original Budget FY 20-21 | Amended Budget FY 20-21 | Actual FY 20-21 | Amended Bud vs. Actual + (-) Variance |
|----------------------------------|--------------------------------|-------------------------------|--------------------|---|
| Revenues | | | | |
| Property Taxes | 111,484,120 | 111,484,120 | 113,715,992 | 2,231,872 |
| Sales Taxes | 35,350,090 | 35,350,090 | 46,651,113 | 11,301,023 |
| Licenses and Permits | 5,821,260 | 5,851,260 | 6,775,520 | 924,260 |
| Intergovernmental | 26,739,140 | 26,739,140 | 25,880,626 | (858,514) |
| Charges for Services/Other | 21,986,546 | 24,678,478 | 21,520,957 | (3,157,520) |
| Transfers from Other Funds | 7,320,124 | 7,500,124 | 6,997,927 | (502,197) |
| TOTAL REVENUES | 208,701,280 | 211,603,212 | 221,542,135 | 9,938,923 |
| Expenditures | | | | |
| Personnel | 150,000,930 | 149,742,615 | 149,788,748 | (46,133) |
| Supplies and Services | 49,671,520 | 54,347,712 | 44,777,662 | 9,570,050 |
| Capital Outlay/Leasing | 7,408,120 | 7,146,626 | 6,658,869 | 487,757 |
| Support to Other Funds | 7,050,710 | 8,936,530 | 8,864,911 | 71,619 |
| TOTAL EXPENDITURES | 214,131,280 | 220,173,483 | 210,090,190 | 10,083,293 |
| Addition/Use of Fund Balance (-) | (5,430,000) | (8,570,271) | 11,451,945 | 20,022,216 |

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, 2021. At year end, unassigned fund balance exceeded the minimum policy threshold of 14% of FY 2022 estimated expenditures. Overall, general fund balance increased from \$49.1 million to \$60.5 million.

General Fund Balance at June 30, 2020 Compared to June 30, 2021



Potential Issues Impacting the FY 2022-23 Budget

Recycling Contract

The City of Winston-Salem currently contracts with Waste Management of Carolinas, Inc (WMC) to carry out the curbside recycling program. The current contract with WMC ends in April 2022. Waste Management of Carolinas, Inc and Republic Recycling are the two companies that submitted new proposals for this service. To extend this service as is could require a \$3 million budget increase based on current estimates. The City is seeking to negotiate an alternative rate structure to decrease total costs and is also exploring a hybrid model of service, in which the City would provide collection services and utilize a contractor for processing. Cost estimates are still being developed for this option, and additional details will be provided with the early budget forecast in January.

Contributions to LGERS and WSPORS

In January 2019, the State Board of Trustees amended its policy for employer contribution rates to the Local Government Employee Retirement System (LGERS). LGERS includes law enforcement officers (LEO) and non-LEO employees. Effective July 1, 2019, the “base” employer contribution rate changed with planned increases through FY 2021-22.

While the pre-set rate increases have ended, there is a new formula in place for determining the employer contribution for FY 2022-23. Budget estimates from the LGERS Board are not currently available but will be provided with the early budget forecast in January.

Employee Compensation

For FY 2022-23, the estimated budget impact to provide a 2.5% average merit increase for all employees is \$3.5 million.

Over the past five years, the budget has included a 2% Public Safety Supplemental Pay Adjustment for sworn police officers and certified firefighters in an ongoing effort to recruit and retain qualified public safety personnel. The adopted FY 2021-22 budget includes a supplemental pay increase effective January 1, 2022. The estimated budget impact to provide an additional 2% supplemental pay adjustment for public safety employees effective January 1, 2023 in addition to the full year impact of FY 21-22 is \$1,500,000.

City staff has previously reviewed aspects of a public safety career ladder for sworn police and certified fire personnel. Cost estimates from the most recent review ranged from approximately \$500,000 to \$1.6 million annually depending on the option selected. Options differed in terms of levels between pay grades and the amounts of compression adjustments. Upon direction from management, Budget and Performance Management will work with Human Resources to provide cost estimates for a public safety career ladder.

Public Assembly Facilities

The early budget forecast will present an update on the financial position for the City’s Public Assembly Facilities. These facilities include Winston-Salem Fairgrounds, The Benton Convention Center, Bowman Gray Stadium, and the downtown ballpark (Truist Stadium).

Stormwater Fund

As of June 30, 2021, the fund balance for the Stormwater Management Fund totaled \$28,734,954. The current rate structure for the stormwater fund was established in FY 2007-2008, and there have been no subsequent rate or fee increases. The number of capital projects within the public system have increased since the original rate structure was established. In 2021, the total cost of capital projects identified throughout the City was over \$20 million. Cash flow projections from FY 2020-21 indicated that without an adjustment to the rate or fee schedule, the Stormwater fund balance would fall below the financial policy requirement by FY 2023-24. In addition, without a rate adjustment, the City would fail to meet the 1.0 times coverage ratio that is required by bond covenants.

The following graphs provide a cash flow projection for the Stormwater Management fund as well as a projection for debt coverage requirements.

