



Winston-Salem

Budget and Performance
Management Department

City of Winston-Salem
P.O. Box 2511
Winston-Salem, NC 27102
Citylink 311 (336.727.8000)
Fax 336.734.1224
www.cityofws.org

TO: Mayor Joines, Mayor Pro Tempore Adams, and Members of the City Council
FROM: Scott Tesh, Budget and Performance Management Director
DATE: November 7, 2022
SUBJECT: First Quarter Update on FY 2021-22 Year-End and FY 2023-24 Budget Issues
CC: Lee Garrity, City Manager
Kelly Latham, 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 February. In April, 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 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 2021-22 year-end general fund revenues, expenditures, and fund balance and outlines issues identified by staff that could impact the FY 2023-24 budget.

FY 2021-22 Estimated Year-End General Fund Revenues, Expenditures, and Fund Balance

The following table summarizes actual general fund revenues and expenditures for FY 2021-22. Numbers provided below on FY 2021-22 are taken from the financial statements, which are still being audited. As such, these numbers present our best estimates of year-end financials. Actual revenue came in over the (amended) budgeted amount by \$11.4 million. Total expenditures came in under budget by \$16.2 million.

CityLink311

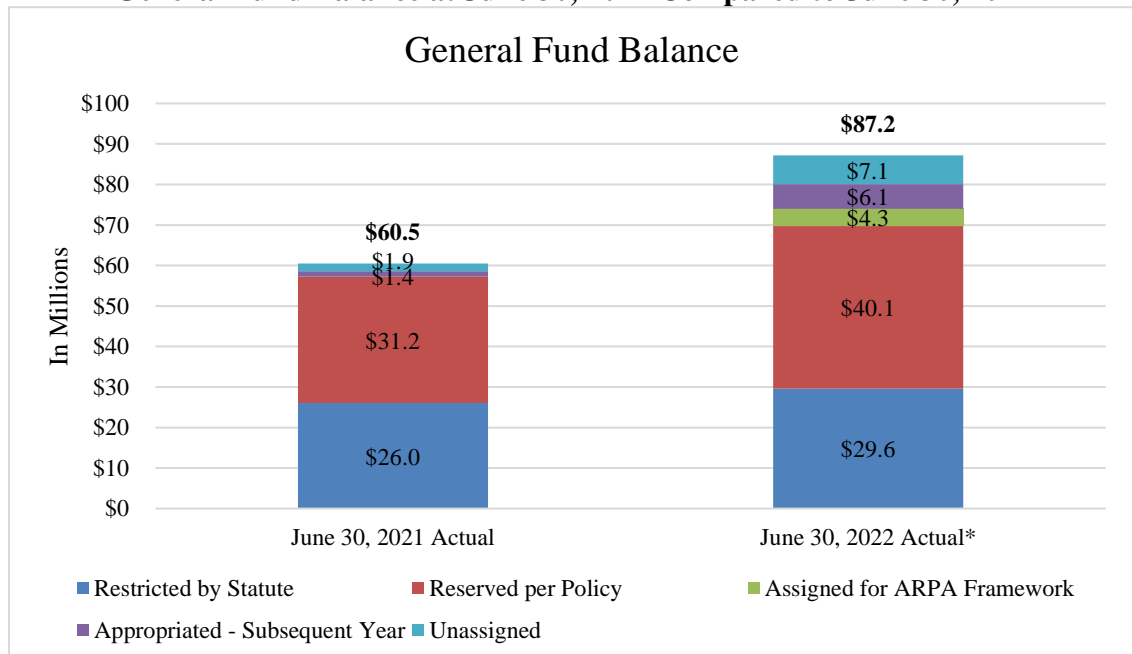
Call 311 or 336-727-8000
citylink@cityofws.org

City Council: Mayor Allen Joines; Denise D. Adams, Mayor Pro Tempore, North Ward; Barbara Hanes Burke, Northeast Ward; Robert C. Clark, West Ward; John C. Larson, South Ward; Jeff MacIntosh, Northwest Ward; Kevin Mundy, Southwest Ward; Annette Scippio, East Ward; James Taylor, Jr., Southeast Ward; City Manager: Lee D. Garrity

	Original Budget FY 21-22	Amended Budget FY 21-22	Actual FY 21-22	Amended Bud vs. Actual + (-) Variance
Revenues				
Property Taxes	122,298,370	122,298,370	123,965,621	1,667,251
Sales Taxes	44,131,910	44,131,910	53,108,658	8,976,748
Licenses and Permits	6,035,780	6,035,780	7,104,086	1,068,306
Intergovernmental	20,464,070	20,464,070	21,658,185	-450,362
Charges for Services/Other	20,367,400	20,950,531	22,382,066	1,431,536
Transfers from Other Funds	8,424,690	40,090,500	39,053,665	-1,036,835
TOTAL REVENUES	221,722,220	253,971,161	267,272,282	11,419,224
Expenditures				
Personnel	153,669,320	152,612,370	149,720,439	-2,891,931
Supplies and Services	52,264,050	59,879,385	49,044,174	-10,835,210
Capital Outlay/Leasing	7,495,720	6,919,320	7,812,489	-988,729
Support to Other Funds	9,643,130	35,511,660	34,003,200	-1,508,460
TOTAL EXPENDITURES	223,072,220	254,922,735	240,580,302	-16,224,330
Addition/Use of Fund Balance (-)	-1,350,000	-951,574	26,691,981	27,643,554

The City of Winston-Salem has adopted a financial policy to maintain a minimum unassigned fund balance of 16% of estimated expenditures in the general fund. The following chart provides the change in general fund balance as of June 30, 2022. At year end, unassigned fund balance was 18.8% (2.8% above minimum policy requirement) of 2023 estimated expenditures. Overall, general fund balance increased from \$60.5 million to \$87.2 million. The chart below also shows the amount of general fund balance still assigned to the American Rescue Plan Act (ARPA) framework.

General Fund Balance at June 30, 2021 Compared to June 30, 2022



Uses of General Fund Balance in FY 2022-23

Although a significant amount (\$27.6 million) was added to general fund balance in FY 2021-22, the adopted budget for FY 2022-23 and subsequent amendments to the budget have appropriated \$6.99 million in general fund balance. Additionally, there are planned amendments in November and beyond to potentially appropriate an additional \$2.12 million in general fund balance. The table below shows those uses:

<u>Project/Program</u>	<u>Amount</u>
<i>Currently Appropriated</i>	
Capital Projects (10 Projects)	4,130,000
One-Time Recycling Costs	1,112,860
Behavioral Evaluation and Response Team	700,000
Fire Station 14 Land Acquisition	450,000
Ward Realignment Expenses	150,000
New Marketing Engagement Program	130,000
General Fund – To Balance FY 23 Budget	143,390
Grant Writing (Strategics Consulting)	100,000
Bethabara Park Equipment Replacement	70,000
<hr/> Subtotal	<hr/> 6,986,250
<i>Planned Appropriations</i>	
RAISE Grant Match	1,700,000
Tax Collection Fees (November)	381,000
Planning Position (November)	42,000
<hr/> Subtotal	<hr/> 2,123,000
 Grand Total	 9,109,250

Potential Issues Impacting the FY 2023-24 Budget

Employee Compensation

For FY 2023-24, the estimated general fund budget impact to provide a 4.0% average merit increase for all employees (including step adjustments for sworn police and certified fire personnel) is \$6.1 million. The FY 2022-23 budget included an average 3.8% merit for positions not on the public safety step pay plans and 4% adjustments for those on the step plans.

In addition to merit and step plan increases, there may be a need in the future to engage in an organization-wide market compensation study. The results of a such a study are unknown, but the following general scenarios are presented for high-level illustrative purposes in the general fund:

Average 5% Market Increase with Benefits: \$8.6 million

Average 10% Market Increase with Benefits: \$17.1 million

The scenarios above assume an average 4% increase for merit pay compounded with the 5% or 10% adjustment with no change in the current benefits factor. Based on the current levy

generated from an additional penny on the property tax rate, the increases in the scenarios above are equivalent to a 3.2 cent and 6.4 cent property tax rate increase, respectively.

Increased 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 going forward. In FY 2022-23, the rate increased 1.1%. Budget estimates from the LGERS Board are not currently available but will be provided with the early budget forecast later this year. It is expected that the rates will increase.

Effects of General Inflation

Based on September 2022 reporting from the U.S. Department of Labor, Bureau of Labor Statistics, annualized inflation is currently at 8.2%. The main factors for this include energy costs (+19.8%) and food costs (+11.2%), with notes that housing costs continue to climb. Overall, annualized inflation excluding food and energy costs is 6.6%.

The City is seeing increased costs in many supplies and services areas and also in the acquisition cost of vehicles. Numerous recent purchases of rolling stock replacements have come in over originally budgeted figures. The following are several examples of such:

<u>Department</u>	<u>Item</u>	<u>Amount Over</u> <u>Budget</u>	<u>Percent Over</u> <u>Budget</u>
Utilities	3/4 Ton Trucks	70,388	Tax Collection 35%
DOT	Marking Truck	111,775	32%
Police	Unmarked Vehicles	26,536	22%
TFO	Pothole Repair Truck	28,884	18%
Fire	Ladder Truck	262,426	17%
Police	Patrol Vehicles	188,149	13%
Fire	Engine/Pumper	93,811	12%

As a note, the general fund budget for gasoline and diesel fuel for vehicles and equipment is increased approximately 42% from the prior year. Fuel prices have varied greatly in the first quarter of the year, particularly for diesel fuel. The first quarter spending rate for fuel was slightly lower than prior year (23.8% compared to 25.0%). Budget staff will continue to monitor fuel prices and recommend adjustments as necessary.

Additional Operating Costs

In addition to inflation, the following items listed below are projected cost increases that could have a significant effect on the FY 2023-24 budget.

Tax Collection Services – After legal review, the overall cost of tax collections services in FY 2022-23 will be approximately \$420,000 greater than what is budgeted. Tax collection

services functional costs rose approximately \$400,000, and the County removed nearly \$1 million in revenues from the calculation (which increased the net distributable cost).

New Positions – Below are the estimated costs for new positions that would affect the FY 2023-24 budget that have been or are intended to be added during FY 2022-23:

<u>Department</u>	<u>Position</u>	<u>Estimated Net Operating Cost</u>
Marketing & Comm.	Community Engagement Manager	135,000
Human Resources	Human Resources Analyst	90,000
Planning & Dev Serv.	Project Planner	45,000

Public Assembly Facilities

There are key work items this year to review operating expenses and revenues for the Winston-Salem Fairgrounds and Bowman Gray Stadium with a focus on reducing operating deficits. Continued operating deficits in the funds would draw down on available fund balance and incur the need for general fund resources to maintain operations. After this review takes place, Budget staff will provide details to City Council on any anticipated general fund support in FY 2023-24 or beyond. The early budget forecast will present an update on the financial position for the City's Public Assembly Facilities.

Stormwater Fund

As of June 30, 2022, the fund balance for the Stormwater Management Fund was \$25,923,997, based on unfinalized year-end numbers. 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 2022, the total cost of capital projects identified throughout the City was over \$31 million. The cash flow projection for this fund will be updated with year-end financials and presented as part of the early budget forecast.