



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: Patrice Toney, Interim City Manager
FROM: Scott Tesh, Budget and Performance Management Director
DATE: November 5, 2023
SUBJECT: First Quarter Update FY 2024-25 Budget Issues
CC: Ben Rowe, Assistant 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 2022-23 year-end general fund revenues, expenditures, and fund balance and outlines issues identified by staff that could impact the FY 2024-25 budget.

FY 2022-23 Estimated Year-End General Fund Revenues, Expenditures, and Fund Balance

The following table summarizes actual general fund revenues and expenditures for FY 2022-23. Numbers provided below on FY 2022-23 are taken from the draft 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 \$4.7 million. Total expenditures came in under budget by \$33.3 million, with \$11.6 million of that number related to ARPA-enabled funding for community agencies.

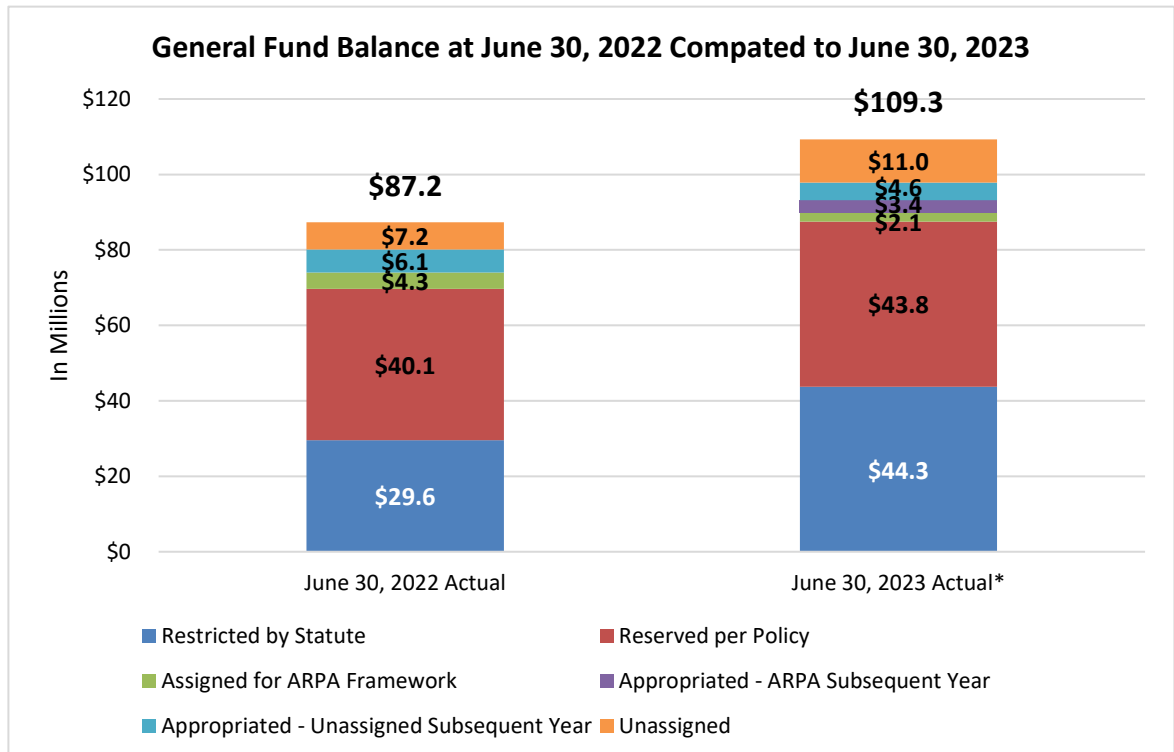
CityLink311

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 22-23	Amended Budget FY 22-23	Actual FY 22-23	Amended Bud vs. Actual + (-) Variance
Revenues				
Property Taxes	131,630,020	131,630,020	133,914,273	2,284,253
Sales Taxes	54,649,990	56,099,990	57,588,295	1,488,305
Licenses and Permits	7,015,820	7,015,820	6,721,847	-293,973
Intergovernmental	21,017,550	21,017,550	23,507,501	2,489,951
Charges for Services/Other	21,381,030	21,411,704	20,847,131	-564,573
Transfers from Other Funds	9,120,810	26,990,952	26,269,247	-721,704
TOTAL REVENUES	244,815,220	264,166,035	268,848,294	4,682,259
Expenditures				
Personnel	169,421,170	168,068,540	162,156,904	-5,911,636
Supplies and Services	58,898,660	82,690,780	59,869,920	-22,820,859
Capital Outlay/Leasing	11,399,640	11,358,022	7,252,868	-4,105,154
Support to Other Funds	11,181,080	17,979,230	17,508,788	-470,442
TOTAL EXPENDITURES	250,900,550	280,096,571	246,788,480	-33,308,091
Addition/Use of Fund Balance (-)	-6,085,330	-15,930,536	22,059,814	

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. At FY 2022-23 year-end, unassigned fund balance was 20.0% (4.0% above minimum policy requirement) of FY 2023-24 estimated expenditures. Overall, general fund balance increased from \$87.2 million to \$109.3 million. The significant increase of fund balance reserved per state statute is a reflection of increased encumbrances, predominantly for ARPA-related community agencies.



Uses of Unassigned General Fund Balance in FY 2023-24

Although a significant amount was added to unassigned general fund balance in FY 2022-23, the adopted budget for FY 2023-24 and subsequent amendments to the budget have appropriated \$4.6 million in unassigned general fund balance. Additionally, there are several potential uses of additional fund balance that could be appropriated via amendments later this year totaling an estimated \$1.8 million. The table below shows those uses:

<u>Project/Program</u>	<u>Amount</u>
<i>Currently Appropriated</i>	
Supplemental Pay - Unassigned Fund Balance	\$2,234,690
Capital Projects	1,678,300
HRIS Implementation Consulting	250,000
Alternative Fuel Vehicles Study	250,000
Classification and Compensation Study	200,000
Teacher Appreciation Remaining Funds	1,610
<hr/> Subtotal	<hr/> \$4,614,600
 <i>Planned Appropriations (Estimates)</i>	
LED Streetlighting Conversion	\$1,000,000
Johnson Center Roof Replacement	800,000
<hr/> Subtotal	<hr/> \$1,800,000
 Grand Total	 \$6,414,600

Potential Issues Impacting the FY 2024-25 Budget

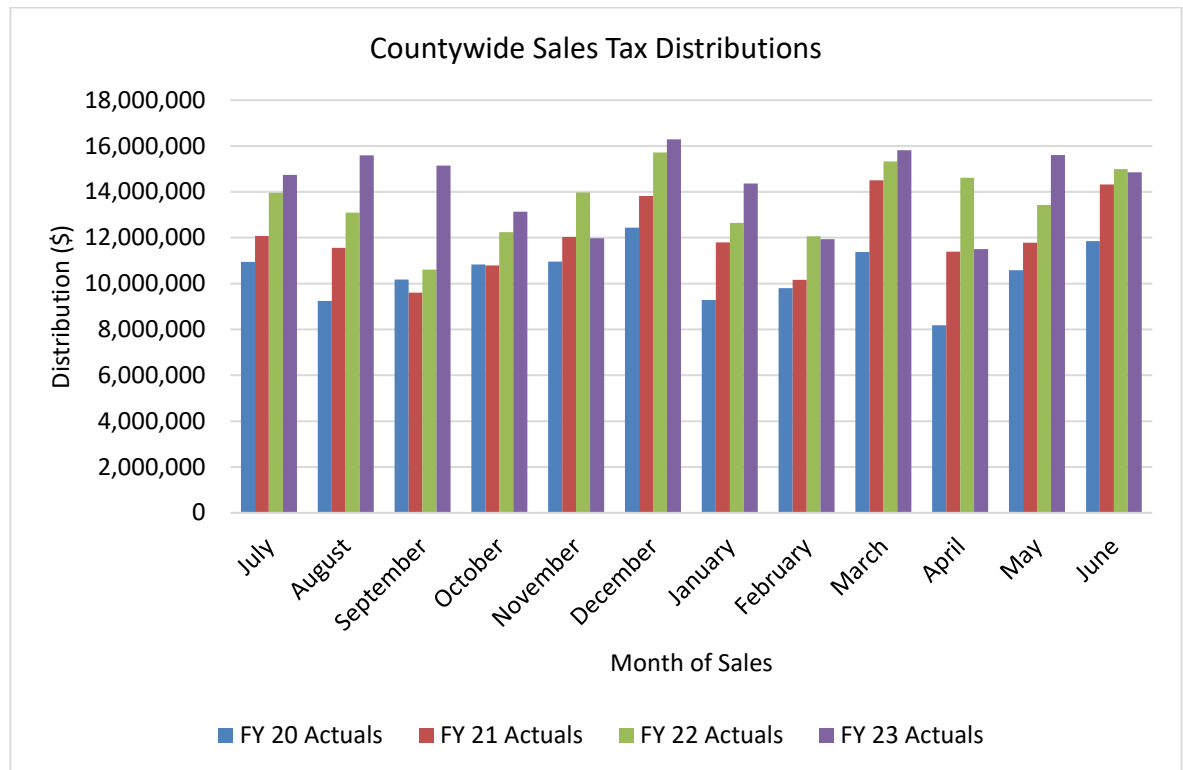
Revenues

Recycling Commodity Revenue

Recycling commodity revenues have experienced a significant amount of market fluctuation in the last fifteen months, with blended rates as high as \$121 per ton (July 2022) and as low as \$55 per ton (September 2023). Estimates for this revenue source were lowered by \$423,440 as part of the FY 2023-24 budget, but at current rates may need to be lowered an additional \$200,000 in FY 2024-25.

Local Option Sales Tax Growth

Sales tax growth rates in the months emerging from the pandemic were significantly higher than expected. County-wide sales tax distributions grew 14.5% in FY 21 and 13.1% in FY 22, the only consecutive double-digit annual growth rates this century. However, FY 23 distributions grew at a rate of 5.1%, partially due to larger annual refunds. Growth for the first distribution in FY 2024 (received in October) was less than 4%, which was the budgeted growth rate for the year. The chart on the next page shows multi-year growth by month. Note that three of the last five monthly distributions shown in the chart were lower than the previous year's distributions.



Expenditures

Employee Compensation

For FY 2024-25, the estimated general fund budget impact to provide merit increases for all employees (including step adjustments for sworn police and certified fire personnel each in July and January) could be between \$3.0 million and \$5.9 million, 2.0% and 4.0% increase scenarios. The FY 2023-24 budget included an average 6.0% merit for positions not on the public safety step pay plans and 6.0% adjustments for those on the step plans (in addition to police and fire pay plan minimum increases).

In addition to merit and step plan increases, the FY 2023-24 budget included funding for a full compensation and classification study of all City positions. Preliminary results of the study are not expected to be available until April 2024 at the earliest, but the following general scenarios are presented for high-level illustrative purposes in the general fund:

Average 4% Market Increase with Benefits: \$7.1 million

Average 8% Market Increase with Benefits: \$14.3 million

The scenarios for market-based pay increases above assume 4% or 8% adjustment (no additional merit added) 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 2.6-cent and 5.2-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 2023-24, the rate increased 0.75% for general employees and 0.91% for certified law enforcement employees. Budget estimates from the LGERS Board are not currently available but will be provided with the early budget forecast later this year. Based on previous communications from the retirement system, it is expected that FY 2024-25 contributions may increase at the same rate as the previous year.

Effects of General Inflation

Based on September 2023 reporting from the U.S. Department of Labor, Bureau of Labor Statistics, annualized inflation is currently 3.7% higher than the previous year. Among the main drivers for the increase are transportation services (+9.1%), shelter costs (+7.2%), and food costs (+3.7%). Annualized energy costs decreased 0.5%; overall, annualized inflation excluding food and energy costs is 4.1%.

The City continues to see 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 Budget</u>	<u>Percent Over Budget</u>
Utilities	Tandem Axle Dump Truck	35,060	29%
Utilities	2-Ton Truck	28,000	25%
Police	Patrol Vehicles (17)	108,120	18%
Recreation	Dump Trucks (2)	19,800	17%
Sanitation	Pull-Behind Leaf Loader (10)	87,720	15%
DOT	Utility Trucks (2)	24,700	13%
PFM	3/4 Ton Truck	10,100	10%
Fire	Pumpers (3)	107,984	3%

As a note, the general fund budget for gasoline and diesel fuel for vehicles and equipment was increased approximately 13% from the prior year. Fuel prices have varied greatly in the first quarter of the year, particularly for diesel fuel. Budget staff will continue to monitor fuel prices and recommend adjustments as necessary. For reference, East Coast diesel prices in September were 8.6% lower than the same period the previous year but were 16.8% higher than three months prior (source: U.S. Energy Information Administration).

Additional Operating/Equipment Costs

In December, departments will submit unavoidable cost increases for the FY 2024-25 budget process. Many of those will be related to inflationary cost increases, but BPM is currently monitoring the following estimated increases in general fund support for expansion items and items for which grant funding is expiring:

- Real Time Crime Center and “ShotSpotter” – \$217,000
- Self-Contained Breathing Apparatus Replacement (WSFD) – \$3.2 million (potentially funding over two years)
- Replacement of Human Resources Information System – cost unknown

Public Assembly Facilities

Continued operating deficits in the Winston-Salem Fairgrounds and Bowman Gray Stadium funds will draw down on available fund balance and incur the need for general fund resources to maintain operations. The most recent update to the long-range financial forecast shows all remaining cash in these funds expended during FY 2024-25. The early budget forecast will present an update on the financial position for the City’s Public Assembly Facilities and projected general fund subsidy for FY 2024-25. The estimated subsidy is \$1,000,000 annually.

Stormwater Fund

As of June 30, 2023, the fund balance for the Stormwater Management Fund was \$28,143,232, based on unfinalized year-end numbers. The FY 2023-24 budget included the first stormwater rate increase (8% increase effective January 2024) since the fund was established in FY 2007-08. The need to replace critical infrastructure is outpacing financial and current workforce capacities. The stormwater management fund has an estimated \$49.3 million in open and planned capital projects through FY 2028-29. Staff will continue to monitor fund performance and recommend appropriate rate structuring to provide sufficient funding for operating, capital, and debt service requirements, including appropriate rate increases as dictated by bond covenants.

Transit Operations Fund

The current long-range forecast projects that the fund will become insolvent in FY 2025-26 without significant changes to revenue and expenditure assumptions. Additionally, WSDOT will be issuing a request for proposals (RFP) to identify a new transit provider. It is unknown what fiscal impact the new service agreement will have. Staff will provide updates on the RFP process and other cost assumptions as part of the early budget forecast.

Behavioral Evaluation and Response (BEAR) Team Grants

Currently, the general fund covers \$224,400 of the BEAR team operating budget. Based on the current funding model and level of service, the general fund contribution to this program would increase by \$330,000 by FY 2026-27.

The City currently has \$1.2 million in two pending grant requests to expand the BEAR team operations to include additional response personnel. If both grants were received and the service level enhanced permanently, it is expected that the general fund would need to cover nearly \$1.0 million in annual cost when the grants run out. Estimated, annual increases in general fund support are shown below:

	<u>FY 24</u>	<u>FY 25</u>	<u>FY 26</u>	<u>FY 27</u>	<u>FY 28</u>
General Fund Support	\$ 224,400	\$ 422,471	\$ 1,070,407	\$ 1,623,422	\$ 1,663,600
<i>General Fund Support Increase</i>	\$ -	\$ 198,071	\$ 647,936	\$ 553,015	\$ 40,178
<i>Cumulative General Fund Support</i>	\$ -	\$ 198,071	\$ 846,007	\$ 1,399,022	\$ 1,439,200