



# Memorandum

**TO:** Mayor Joines, Mayor Pro Tempore Burke, and Members of the City Council  
**FROM:** Patrice Y. Toney, Budget and Evaluation Director  
**DATE:** November 12, 2019  
**SUBJECT:** First Quarter Update on FY 2018-19 Year-End and FY 2020-21 Budget Issues  
**CC:** Lee Garrity, City Manager  
 Ben Rowe, Assistant City Manager  
 Lisa Saunders, Chief Financial Officer

**Budget and Evaluation**

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Annually, the Budget and Evaluation Office 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 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 2018-19 year-end general fund revenues, expenditures, and fund balance and outlines issues identified by staff that could impact the FY 2020-21 budget.

**FY 2018-19 Year-End General Fund Revenues, Expenditures, and Fund Balance**

The following table summarizes actual general fund revenues and expenditures for FY 2018-19. Actual revenue came in over the (amended) budgeted amount by \$2.5M. Total expenditures came in under budget by \$3.3M.

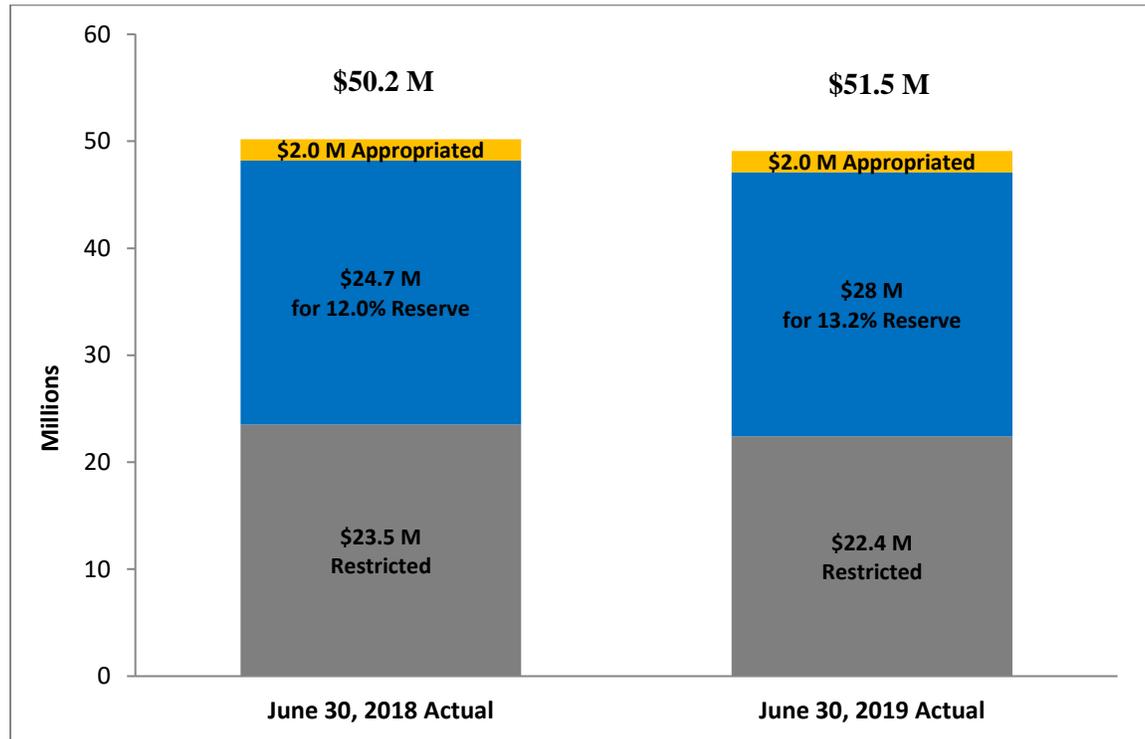
	Original Budget FY 18-19	Amended Budget FY 18-19	Actual FY 18-19	Amended Bud vs. Actual + (-) Variance
<b>Revenues</b>				
Property Taxes	106,446,390	106,446,390	108,020,607	<b>1,574,217</b>
Sales Taxes	38,039,080	38,039,080	38,546,194	<b>507,114</b>
Licenses and Permits	6,283,140	6,283,140	6,696,698	<b>413,558</b>
Intergovernmental	20,866,250	20,866,250	21,938,080	<b>1,071,830</b>
Charges for Services/Other	23,097,972	23,126,507	22,912,692	<b>(213,815)</b>
Transfers from Other Funds	8,674,098	8,674,098	7,836,269	<b>(837,829)</b>
<b>TOTAL REVENUES</b>	<b>203,406,930</b>	<b>203,435,465</b>	<b>205,950,540</b>	<b>2,515,075</b>
<b>Expenditures</b>				
Personnel	142,736,700	142,686,700	144,467,705	<b>(1,781,005)</b>
Supplies and Services	47,175,616	49,726,313	45,581,040	<b>4,145,273</b>
Capital Outlay/Leasing	8,106,410	8,145,630	7,690,450	<b>455,180</b>
Support to Other Funds	7,388,204	7,388,204	6,922,676	<b>465,528</b>
<b>TOTAL EXPENDITURES</b>	<b>205,406,930</b>	<b>207,946,847</b>	<b>204,661,871</b>	<b>3,284,976</b>
<b>Addition/-Use of Fund Balance</b>	<b>(2,000,000)</b>	<b>(4,511,382)</b>	<b>1,288,669</b>	<b>5,800,051</b>



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

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, 2019. At year end, unassigned fund balance was 13.2% of 2020 estimated expenditures. Overall, general fund balance increased from \$50.2 million to \$51.5 million.

**GENERAL FUND BALANCE AT JUNE 30, 2019 COMPARED TO JUNE 30, 2018**



**Potential Issues Impacting the FY 2020-21 Budget**

Reinstate Merit Pay

The adopted FY 2019-20 budget did not include merit pay for all employees, primarily due to the full-year financial impact of implementing the Springsted classification and compensation study. Reinstating the 2% average merit increase for all employees will have a budgetary impact of approximately \$3 million on the FY 2020-21 budget.

Increase Minimum Wage

In May 2019, the Human Resources Department took a resolution to City Council to raise the minimum rate of pay from \$12.50/hour to \$13.00/hour. Based on the results of the compensation and classification study, the recommendation was to incrementally increase the minimum wage to \$15 per hour by fiscal year 2022, contingent upon budget constraints. For the FY 2020-21 budget, the goal will be to increase the minimum wage by a minimum of \$1 (i.e. \$14 per hour), with an early estimate of an approximately \$400,000 budgetary impact.

Increased Contributions to LGERS and WSPORS

At its meeting on January 31, 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. LEO's rate increased from 8.50 to 9.70 percent of reported compensation. The rate for all other employees increased from 7.75 to 8.95 percent of reported compensation. The local impact of this policy change increased employee benefits by a net rate of 3.4% or \$1.7 million in FY 2019-20.

For FY 2020-21, LGERS is projected to increase by 1.2% or \$1.2 million. LEO is projected to increase to 10.9%, and non-LEO increases to 10.15%. WSPORS is projected to increase by \$790,967 and an increase in the separation allowance by \$268,397 in FY 2020-21.

Staffing for Adequate Fire and Emergency Response (SAFER) Grant

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 match requirements were 25% for the first year, 25% for the second year, and 65% for the third year. The FY 2020-21 budget will be the third year for the local match, increasing the net cost to the general fund by approximately \$492,000.

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. The primary sources of revenue for this fund currently come from housing loan repayments and investment income. Spending from the fund outpaces these revenues. The unassigned fund balance as of June 30, 2018 was \$836,738. The unassigned fund balance ending June 30, 2019 will be available in December of 2019.

As part of the annual spending from the Housing Finance Assistance Fund, the City provides funding to nonprofits including:

Non-profits	FY 2019-20
Summer Youth Employment Program	\$165,000
Experiment in Self-Reliance Tax Preparation	35,600
Liberty East Redevelopment, Inc.	31,150
S.G. Atkins CDC	40,000
Positive Wellness Alliance	24,250
United Health Centers	16,020
Bethesda Center – Intensive Case Management	160,000
HARRY Veterans Community Outreach Services	25,000
NABVETS	10,000
Work Family Resource Center	25,450
	<b>\$532,470</b>

Reinstate General Fund Subsidy to Off-Street Parking Fund

The adopted FY 2019-20 budget included a one-time reduction in the general fund subsidy to the off-street parking fund, for a savings of \$495,150. Based on projections for the end of FY 2018-19, the subsidy will need to be reinstated beginning in FY 2020-21 in order to keep the fund balanced for future fiscal years.

Street Maintenance Issues

On Tuesday, October 15, 2019, staff presented results from the resident survey to the Community Development/Housing/General Government Committee. Survey results showed 42% of residents were dissatisfied with the condition of the City’s streets. A potential funding source to address street maintenance needs is to increase the Motor Vehicle Privilege Tax (MVPT) by \$15 per vehicle, which will yield approximately \$2.7 million in revenue. This additional funding could support an additional street maintenance/pothole crew (\$400k), with the remaining funds dedicated to street maintenance capital (\$2.3 M).

Winston-Salem Transit Authority (WSTA)

During development of the FY 2019-20 budget, outlying year projections for the Transit Fund estimated the fund spending down the remainder of its reserves in FY 2021-22. As the year-end actuals are finalized for FY 2018-19, the Budget and Evaluation Office, with assistance from staff from the Winston-Salem Transit Authority (WSTA), will begin updating the projections for the fund over the next few months. A more up-to-date snapshot of the outlook for the Transit Fund will be included with the FY 2020-21 early budget forecast in January.

Stormwater Management Fund

As of June 30, 2019, the fund balance for the Stormwater Management Fund was \$26,208,348. The current rate structure for the fund was established in FY 2007-2008, and there have been no subsequent rate or fee increases. The number of capital drainage projects within the public system have increased. In 2019, there were over 30 projects identified throughout the City at a cost of over \$25 million. Cash flow projections from FY 2017-18 indicated that without an adjustment to the rate or fee schedule, the Stormwater fund balance would be depleted within the next five years.

