Washoe County Financial Outlook

Board of County Commissioners Workshop
January 13th, 2021
Presented by:
Christine Vuletich, Assistant County Manager Finance & Administration,
and
Lori Cooke, Budget Manager
Maintaining Stability in a Time of Uncertainty

Discussion Flow:
• FY 2020 Year End Results
• FY 2021 Mid-year Review
• FY 2022 Outlook
How did we end the fiscal year?

- **Revenue 1.9% higher than budget**: positive impact on revenue from federal stimulus and pent-up demand in local economy.

- **Expenses 4.0% less than budget**: reduced due to proactive measures including, soft hiring freeze/salary savings, weekly expense review committee.

- **Other Financing Uses 13.2% less than budgeted**: Transfer out for capital projects deferred, transfer in from Risk Management Fund, reallocated contingency budget

- **Result**: Budgeted net reduction of $5.2 M in fund balance did not occur.

<table>
<thead>
<tr>
<th>General Fund Financial Results FY Ended June 30, 2020</th>
<th>Final Budget</th>
<th>Audited Actual</th>
<th>Variance to Final Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$364,536,189</td>
<td>$371,368,930</td>
<td>1.9%</td>
</tr>
<tr>
<td>Less: Expense</td>
<td>326,149,674</td>
<td>313,105,035</td>
<td>-4.0%</td>
</tr>
<tr>
<td>Other Financing Uses</td>
<td>43,573,827</td>
<td>37,817,388</td>
<td>-13.2%</td>
</tr>
<tr>
<td>Net Change in Fund Balance</td>
<td>(5,187,312)</td>
<td>20,446,507</td>
<td>3.5%</td>
</tr>
<tr>
<td>Beginning Fund Balance, July 1</td>
<td>61,778,224</td>
<td>73,821,298</td>
<td></td>
</tr>
<tr>
<td>Ending Fund Balance, June 30</td>
<td>$56,590,912</td>
<td>$94,267,805</td>
<td></td>
</tr>
</tbody>
</table>
How Much Fund Balance is Needed?

Considerations:

• BCC Reserves Policy is to maintain unassigned fund balance between 10%-17% of operating budget.

• Working capital from fund balance is necessary to meet cash flow needs to pay the County’s bills throughout the year.

• Washoe County’s financial strength due to strong fiscal management and reserves cited by rating agencies in most recent bond ratings (Aa2 Moody’s and AA Standard & Poor’s). Reductions in reserves can cause concerns for debt coverage.

• NRS requires a minimum fund balance of 4%, and consecutive annual reductions in fund balance have State fiscal watch implications.

• Fund balance not necessarily the same as “available cash” – investments, and other assets that would need to be sold to convert to cash.

Government Finance Officers Association Recommends:

Appropriate policy level of unrestricted fund balance depends on each government’s unique circumstances:
• Vulnerability to natural disasters
• Degree of dependency on volatile revenue sources
• Potential for cuts in State or Federal funding

Recommend no less than 2 months of working capital, which is equal to 16.6% of budgeted operating expenses. BCC policy range is between 10% and 17%.

Unrestricted Fund Balance should **not** be used as a funding source for ongoing recurring expenditures.

Replenish Fund Balances within 1-3 years.
Components of Fund Balance

<table>
<thead>
<tr>
<th>General Fund Balance</th>
<th>Fiscal Year Ended, June 30, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted</td>
<td>$24,550,000</td>
</tr>
<tr>
<td></td>
<td>Restricted by external legal obligation</td>
</tr>
<tr>
<td>Committed</td>
<td>691,904</td>
</tr>
<tr>
<td></td>
<td>Committed to a specific purpose by the BCC</td>
</tr>
<tr>
<td>Assigned</td>
<td>707,116</td>
</tr>
<tr>
<td></td>
<td>Intended use assigned by BCC</td>
</tr>
<tr>
<td>Unassigned</td>
<td>68,318,785</td>
</tr>
<tr>
<td></td>
<td>Available for working capital &amp; one-time uses after BCC policy level and NRS requirements</td>
</tr>
<tr>
<td>Total Fund Balance</td>
<td>$94,267,805</td>
</tr>
<tr>
<td>Unassigned Fund Balance as a % of Operating Budget</td>
<td>18.9% 69 days of working capital</td>
</tr>
<tr>
<td></td>
<td>BCC policy is 10%-17%,</td>
</tr>
</tbody>
</table>

Fund Balance protects taxpayers and employees from unexpected changes in financial condition, and contributes to Fiscal Sustainability.

Components of Fund Balance
Fiscal Year Ended June 30, 2020

- Restricted: $24,550,000
- Committed: 691,904
- Assigned: 707,116
- Unassigned: 68,318,785
- Total Fund Balance: $94,267,805

Unassigned Fund Balance as a % of Operating Budget: 18.9% 69 days of working capital.
BCC policy is 10%-17%.
FY 2021 Mid-Year Review

Uncertain Certainty?

First six months budget vs. actual – tracking normally
- FY21 budgeted revenue is $25.8M less than FY20 (7.1% lower) – FY21 actual revenue is $8.7M greater than FY20 (5.2% higher)
- FY21 actual expenses are tracking in alignment with budget – must continue to monitor that budgeted savings are realized

Second six months? Impact of continued shut-downs, minimal federal stimulus, prolonged unemployment, continued COVID response costs including vaccinations
Outlook: Uncertainty & Maintain Stability

The Big Challenges for FY 2022:

- **Pandemic**: continued emergency response costs, recovery and ongoing economic implications

- **Homelessness**: need for expansion of regional services and associated ongoing costs

- **Property Tax Refunds**: legal obligation to pay refunds – will it be $24 million, $40 million or $56 million?

- **Legislative Session** – unfunded mandates, State funding reductions, SGST, other?
Coronavirus Sends Labor Market Recovery Into Reverse

December net loss of 140k non-farm jobs driven by coronavirus resurgence, new business restrictions, and new stay at home orders. Leisure and hospitality industry lost 498k jobs and was still 3.9M below pre-pandemic levels. Job growth also weakened or reversed in government (-45k), education and health care (-31k), information (-1k), and financial services (+12k). Nearly all the new labor market weakness was in the services side of the economy, while the goods production side of the economy continued to ramp up employment.

Source: Bank of the West Economics

Washoe County unemployment rate continues to perform better due to economic diversity.

Source: U.S. Bureau of Labor Statistics

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Economic Outlook

TAXABLE SALES
Calendar Year 2020

State of Nevada Department of Taxation

Washoe County Annual Change in Taxable Sales by Highlighted Industry - October 2020

Washoe County Taxable Sales

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Washoe County % Change</th>
<th>State of Nevada % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$5,176,981,699</td>
<td>$37,772,066,777</td>
</tr>
<tr>
<td>2011</td>
<td>5,282,935,192</td>
<td>2.0% 39,935,010,577 5.7%</td>
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<tr>
<td>2012</td>
<td>5,522,605,351</td>
<td>4.5% 42,954,750,131 7.6%</td>
</tr>
<tr>
<td>2013</td>
<td>5,824,726,136</td>
<td>5.5% 45,203,408,413 5.2%</td>
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<tr>
<td>2014</td>
<td>6,370,684,534</td>
<td>9.4% 47,440,345,167 4.9%</td>
</tr>
<tr>
<td>2015</td>
<td>6,817,588,648</td>
<td>7.0% 50,347,535,591 6.1%</td>
</tr>
<tr>
<td>2016</td>
<td>7,550,466,734</td>
<td>10.7% 52,788,295,421 4.8%</td>
</tr>
<tr>
<td>2017</td>
<td>7,989,009,111</td>
<td>5.8% 56,547,741,530 7.1%</td>
</tr>
<tr>
<td>2018</td>
<td>8,531,252,745</td>
<td>6.8% 58,947,823,520 4.2%</td>
</tr>
<tr>
<td>2019</td>
<td>8,829,863,974</td>
<td>3.5% 62,561,025,875 6.1%</td>
</tr>
<tr>
<td>2020</td>
<td>9,250,415,486</td>
<td>4.8% 61,365,683,690 -1.9%</td>
</tr>
<tr>
<td>2021-YTD</td>
<td>3,370,990,459</td>
<td>6.7% 20,453,790,161 -5.2%</td>
</tr>
</tbody>
</table>

2021-YTD = July-October
**Economic Outlook**

**National Outlook:**
The Conference Board anticipates global growth will rise by 4.4% year-on-year in 2021 following a dramatic decline of 4.2% in 2020.

The outlook over the next year is heavily dependent upon 1) the evolution of the pandemic; 2) government policy to control outbreaks; 3) continued monetary and fiscal policy supports; and 4) widespread availability of coronavirus treatments and vaccines.

**Reno MSA:**
Local economic indicators show a 0.54% decline between October and November 2020. The decline was driven by declines in gaming revenue, airport passengers, and airport shipments. The number of initial claims for unemployment also declined, a positive indicator.

Year-on-year, the index increased by 4.58% over the same period last year. The index exceeded its pre-pandemic levels in September 2020.

Ekay Economic Consultants, Inc., and Center for Regional Studies, University of Nevada Reno, College of Business

**Graph:**
- National vs. Reno MSA
- LEADING ECONOMIC INDICATORS
- Calendar Year 2020

- June – casinos re-opened, and all other indicators were up

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FY 2022 Budget Outlook

Known General Fund Requirements Are Estimated To Be Over $32M:

- Contractual Obligations beginning 7/1/2021:
  - 2.5% COLA + merit increases and other contractual provisions $5+M
  - PERS increases $650K (net impact)
    - Regular = increase of 0.5%, from 29.25% to 29.75%
    - Police/Fire = increase of 1.5% from 42.5% to 44.0%
  - Increase of transfer to Indigent Fund $910K
  - Minimum increased funding to support homeless services $1M
  - Increases in non-personnel contractual obligations $2M-$3M

- Property Tax Refunds $24-$56M
- Contingency = $0, increase to $5M
- CIP = $0, reestablish annual funding $6M
- Stabilization Reserve = $0, replenish to $3M
- Continued Pandemic response/recovery costs $unknown
- Legislative Impacts $unknown
Maintaining Stability in a Time of Uncertainty

FY 2022 Budget Outlook:

General Fund Resources

It’s too early to be certain:

- Revenue growth – slight growth, flat or reduction?
- One-time Resources – County’s Fund Balance will not cover all obligations and cannot cover ongoing obligations; other one-time resources are no longer available or sustainable
- What is the gap? Resources may not be enough to fund known requirements
  - Will budget adjustments (reductions) be required?
Maintaining Stability in a Time of Uncertainty

FY 2022 Budget Outlook

Recommendations

Re-Affirm County Goals:
• Maintain Services
• Keep Employees Working
• Use Reserves Wisely

Current Direction:
• Departments submit net-zero reallocations of existing budgets and material BCC-approved/legal contract changes
• No departmental above base budget requests
March & April:
- BCC Fiscal Update
- Budget Meetings with BCC and County Manager
- Tentative Budget
- Recommended Budget BCC Presentation

May:
- Public Hearing and BCC Adoption of Budget
Questions/Discussion