

Fiscal Year 2023 Financial Outlook

Washoe County
Commission
Meeting
April 12, 2022





Fiscal Year 2023 Financial Outlook

Discussion Flow:

- FY 2021 Financial Results
- FY 2022 Year-to-Date Review
- FY 2023 Outlook



FY 2021 General Fund Financial Results



FY 2021 General Fund Financial Results

How did we end the fiscal year?

Revenue 20.4% higher than Budget:

- Budget - revenue reduction due to pandemic, shutdowns & sharp economic downturn in Spring of 2020.
- Actual - higher than expected C-Tax revenue (\$52 M) due to federal stimulus, pent-up demand, and population growth.

Expenses 3.5% less than Budget:

- Expenses lower than Budget due to fiscal management, charging allowable personnel costs to CARES Act funding and vacant positions.

Other Financing Uses 13.2% higher than Budget:

- Fiscal year end actions - reimbursed Risk Management Fund \$3.0 M, and partially restored CIP transfer \$2.3 M (no CIP transfer budgeted in FY 2021)

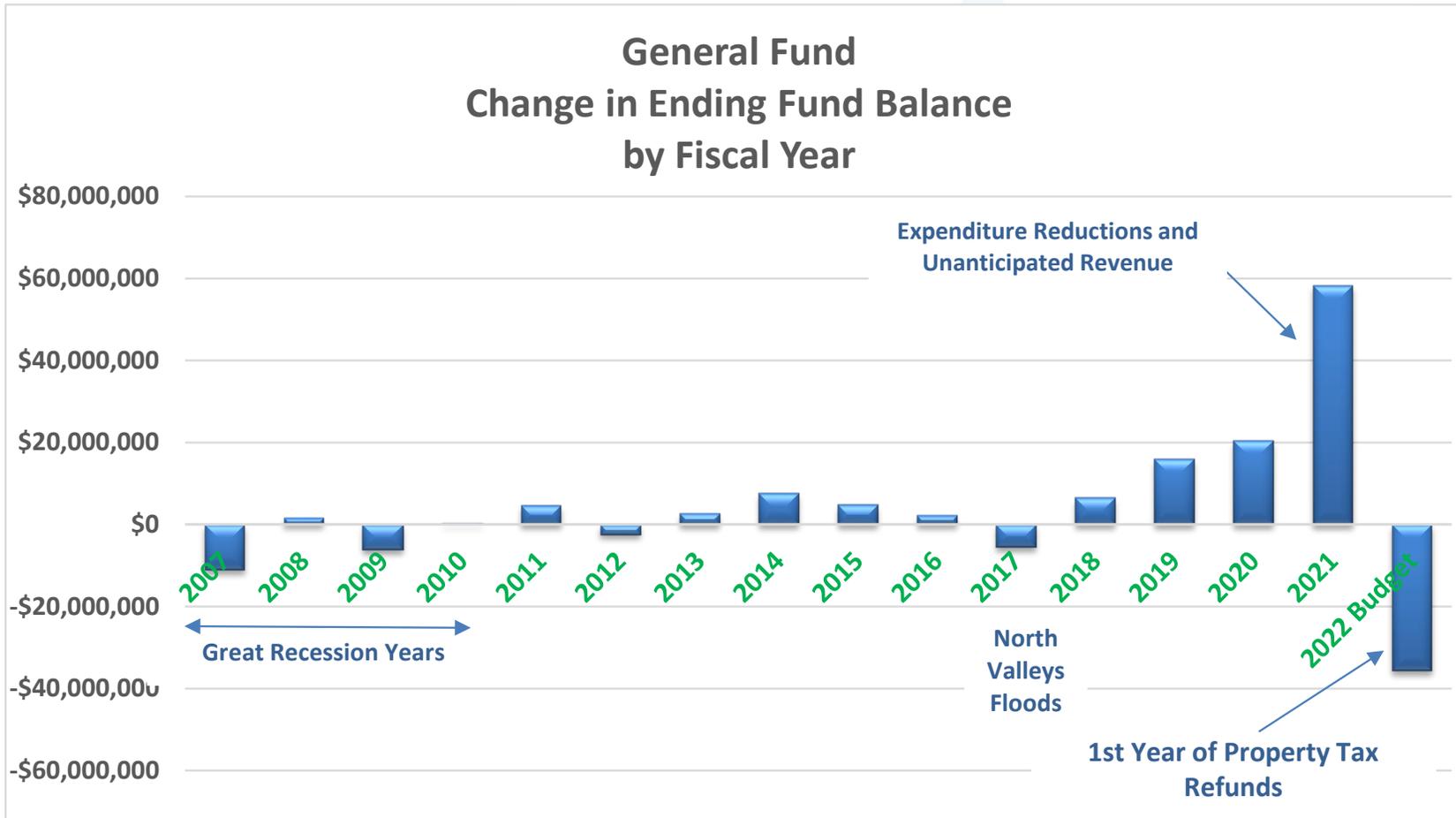
Result:

- Budgeted net reduction of \$16.5 M did not occur, replenished Stabilization Reserve of \$3 million, and increased fund balance by \$58.2 million.

General Fund Financial Results FY Ended 6/30/2021	Budget	Audited Actual	Variance
Revenue	\$338,700,934	\$407,642,479	20.4%
Less: Expenditures	314,715,653	303,636,016	-3.5%
Other Financing Uses	<u>40,452,730</u>	<u>45,784,914</u>	<u>13.2%</u>
Net Change in Fund Balance	(16,467,449)	58,221,549	3.5%
Beginning Fund Balance, July 1	67,625,908	94,267,805	
Net Change in Fund Balance	<u>(16,467,449)</u>	<u>58,221,549</u>	
Ending Fund Balance, June 30	<u>\$51,158,459</u>	<u>\$152,489,354</u>	



Fund Balance History



- Change in Fund Balance Fluctuates Annually
- FY 2022 Budget Includes Use of Fund Balance for Property Tax Refunds



FY 2021 General Fund - Fund Balance

Fund Balance Considerations:

- **BCC Reserves Policy: maintain unassigned fund balance (working capital) between 10%-17% of operating budget, which is needed to meet cash flow needs to pay the County's bills.**
- Washoe County's strong fiscal management and reserves cited by rating agencies in recent bond ratings (Aa2 Moody's/AA Standard & Poor's).
- NRS requires a minimum fund balance of 4%, and consecutive annual reductions in fund balance have State fiscal watch implications.
- Fund balance not the same as "available cash" – investments, and other assets would need to be sold to convert to cash.

Government Finance Officers Association Best Financial Practices:

Appropriate policy level of unassigned 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

GFOA Recommends: no less than 2 months of working capital, which is equal to 16.6% of budgeted operating expenses.

Unassigned Fund Balance is a one-time savings and should not be used as a funding source for ongoing recurring expenditures.

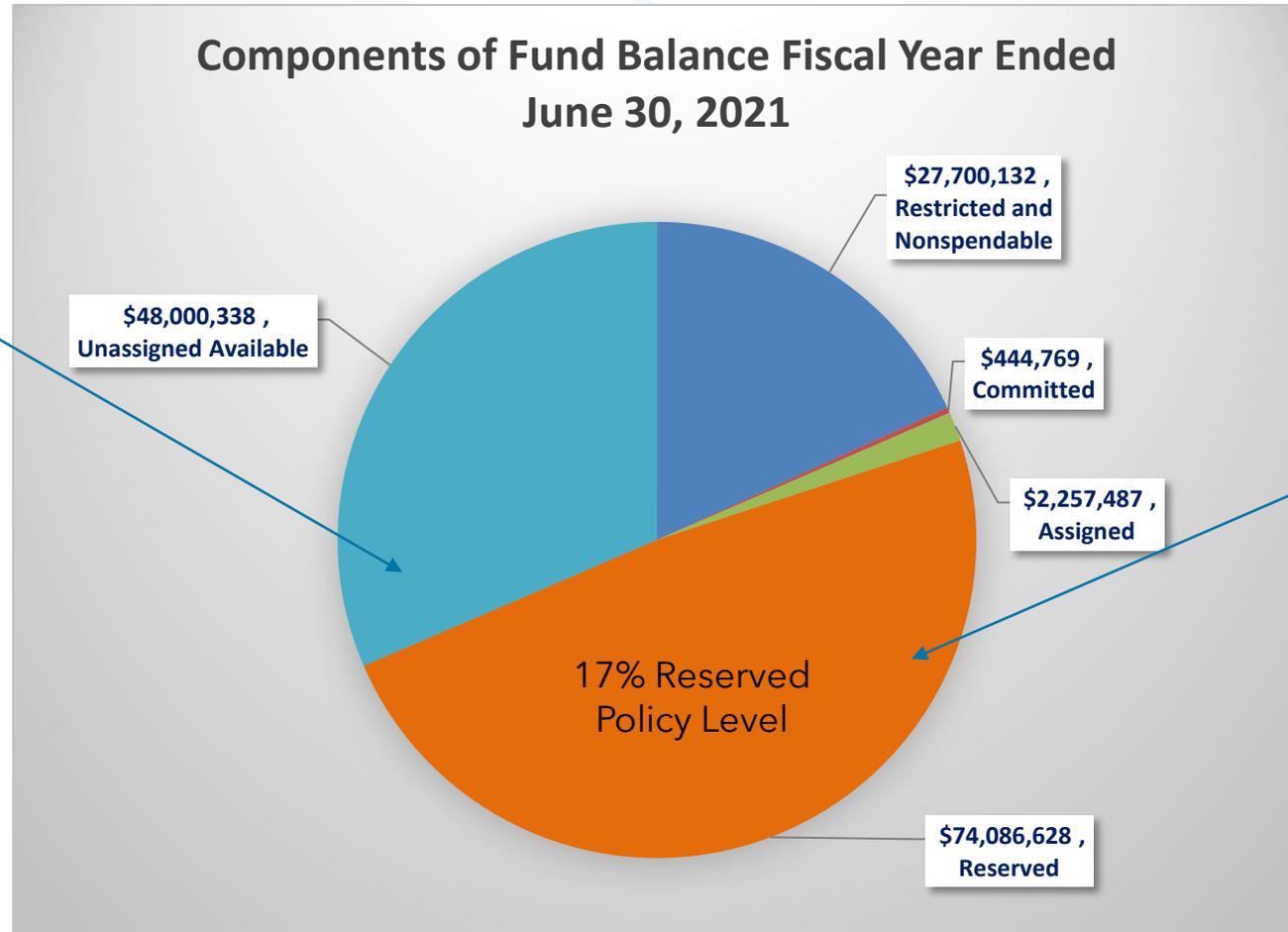
Replenish Fund Balances within 1-3 years.



FY 2021 General Fund – Components of Fund Balance

Unassigned Available Fund Balance = One-time funding for:

- Year 2 of Property Tax Refunds
- Investment in Capital Improvements and Infrastructure Scorecard maintenance of assets



- Reserved Ending Fund Balance must be budgeted (NRS 354)
- Is a *Savings Account* - strengthening fiscal sustainability by protecting taxpayers and employees from unexpected changes in financial condition

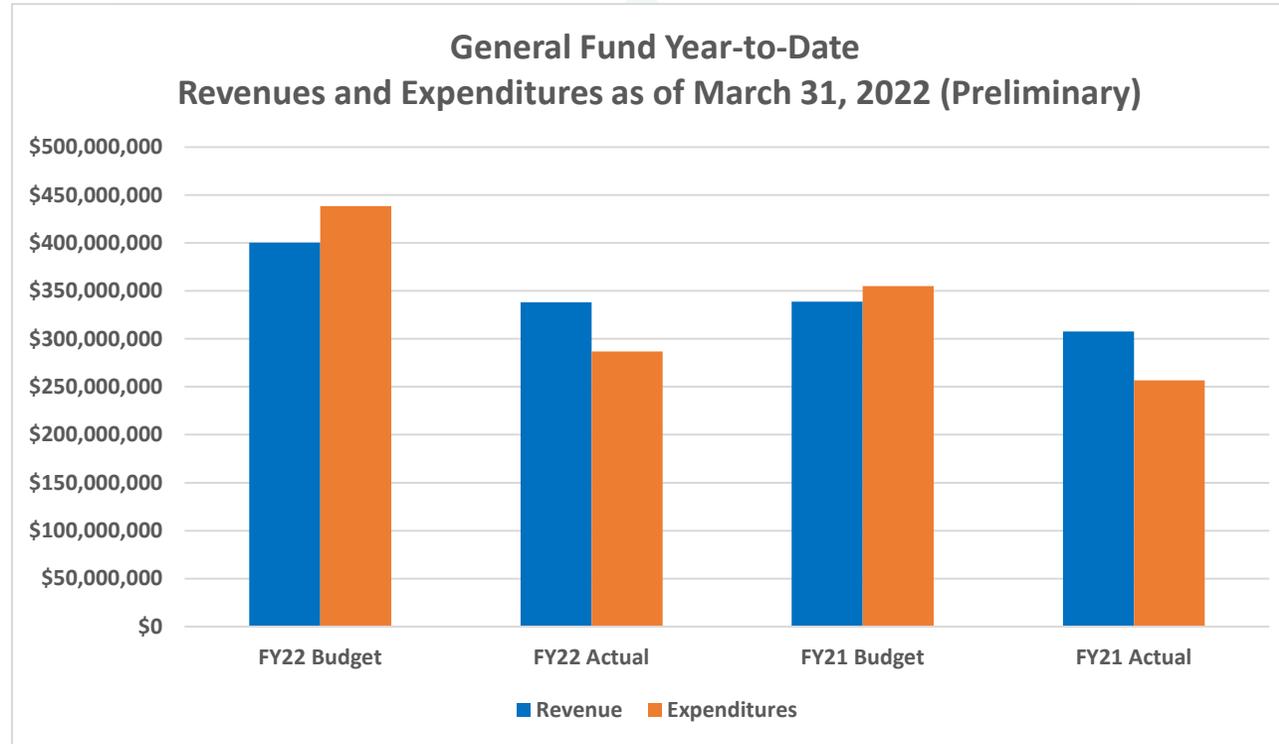


FY 2022 Year-to-Date Review



FY 2022 Year-to-Date Review

Budget is Tracking within Normal Range



General Fund FY22 Year-to-Date July-March (Prelim.)	FY22 Budget	FY22 Actual	% of Budget	FY21 Budget	FY21 Actual	% of Budget
Revenue	\$400,472,728	\$ 338,234,617	84%	\$ 338,700,934	\$ 307,776,737	91%
Expenditures	438,314,684	287,019,606	65%	355,168,383	256,611,851	72%
Net Revenue/(Expenditures)	\$ (37,841,957)	\$ 51,215,011		\$ (16,467,449)	\$ 51,164,886	



FY 2022 YTD Budget Adjustments

General Fund: Transfers of Contingency Budget

- Community Triage Center \$255,000
- Voters Temp Staffing and Facilities Costs \$1,600,000
- Public Defenders Office Expert Witness Costs \$335,000
- Alternative Sentencing Operating Costs \$428,000 (pending BCC approval 4/12/2022)

Non-General Fund: American Rescue Plan Act Projects

- Homeless Services – CARES Campus & Safe Camp \$28,741,318
- Our Place - \$580,000
- Washoe County Sheriff's Office - \$2,096,096
- Public Defender - \$1,316,195
- Human Services - \$1,610,633
- District Attorney - \$2,423,414
- District Court - \$1,285,000
- Justice Courts - \$1,110,113
- Medical Examiner - \$190,000
- Clerk's Office - \$58,895
- Health District - \$790,000



FY 2022 Strategic Planning Direction

Direction from BCC Strategic Planning Workshop, January 26, 2022:

- **Infrastructure Score Card:**

 - Focus on maintaining County assets, parks, sewer & stormwater

- **Homelessness:**

 - Complete Cares Campus construction and deliver programming to stabilize and get people into permanent housing

- **Affordable Housing:**

 - Cities to focus on delivering affordable housing

- **ARPA Funding (2nd Tranche):**

 - Pause button for now and coordinate with annual budget process



FY 2023 Financial Outlook



Economic Outlook

Spring 2020 (FY2021 Budget)

- Global pandemic declared, lock-downs/businesses shut down
- Consumer Spending down 7.6%; most since records began in 1959
- **County Unemployment Rate 19.9%; historic high!**
- **Annual Consumer Price Index All Urban Consumers (CPI-U) 1.8%**
- Unbudgeted revenue loss and pandemic response costs

Washoe County's Goals:

Maintain Services
Keep Employees Working
Use Reserves Wisely

Spring 2021 (FY2022 Budget)

- Businesses begin re-opening, pandemic continues
- CARES Act funding \$20 M, FEMA claims \$8 M, ERA I \$6.6 M
- American Rescue Plan Act \$91M
- **County Unemployment Rate 4.6%**
- **Annual Consumer Price Index All Urban Consumers (CPI-U) 1.2%**
- Revenue loss less than expected

Washoe County's Goals:

Maintain Services
Keep Employees Working
Use Reserves Wisely

Spring 2022 (FY2023 Budget)

- Business improving, workers coming back to offices but not full time
- ERA II \$5.2M
- Supply chain disruptions, strong demand and labor shortages
- **County Unemployment rate 2.8%**
- **Annual Consumer Price Index All Urban Consumers (CPI-U) 4.7%**
- Geopolitical Concerns – Ukraine Invasion, increased costs (energy, commodities and food)

Washoe County's Goals:

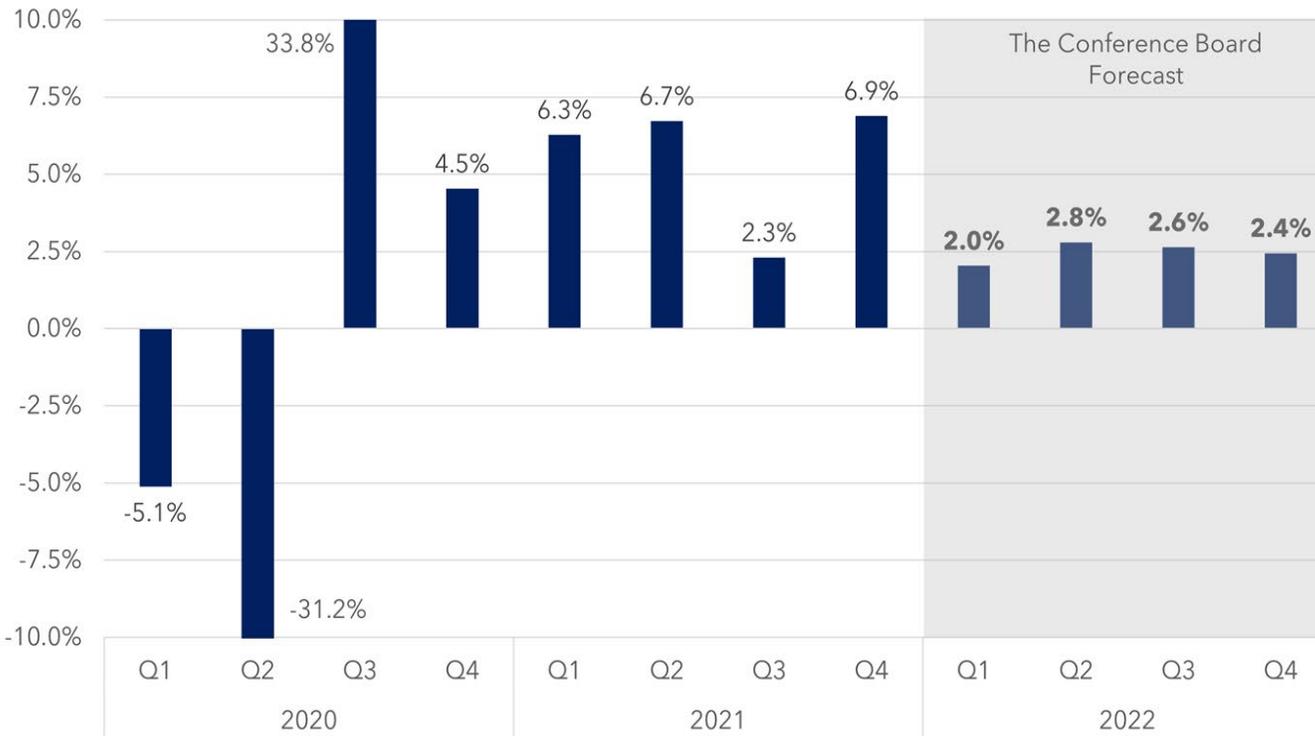
Maintain Services
Keep Employees Working
Use Reserves Wisely



Economic Outlook - GDP

The Conference Board US Economic Outlook, Feb 2022

GDP, Seasonally Adjusted Annualized Rates, Quarter-over-Quarter



Source: BEA, The Conference Board

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February forecast chart is before Ukraine Invasion!

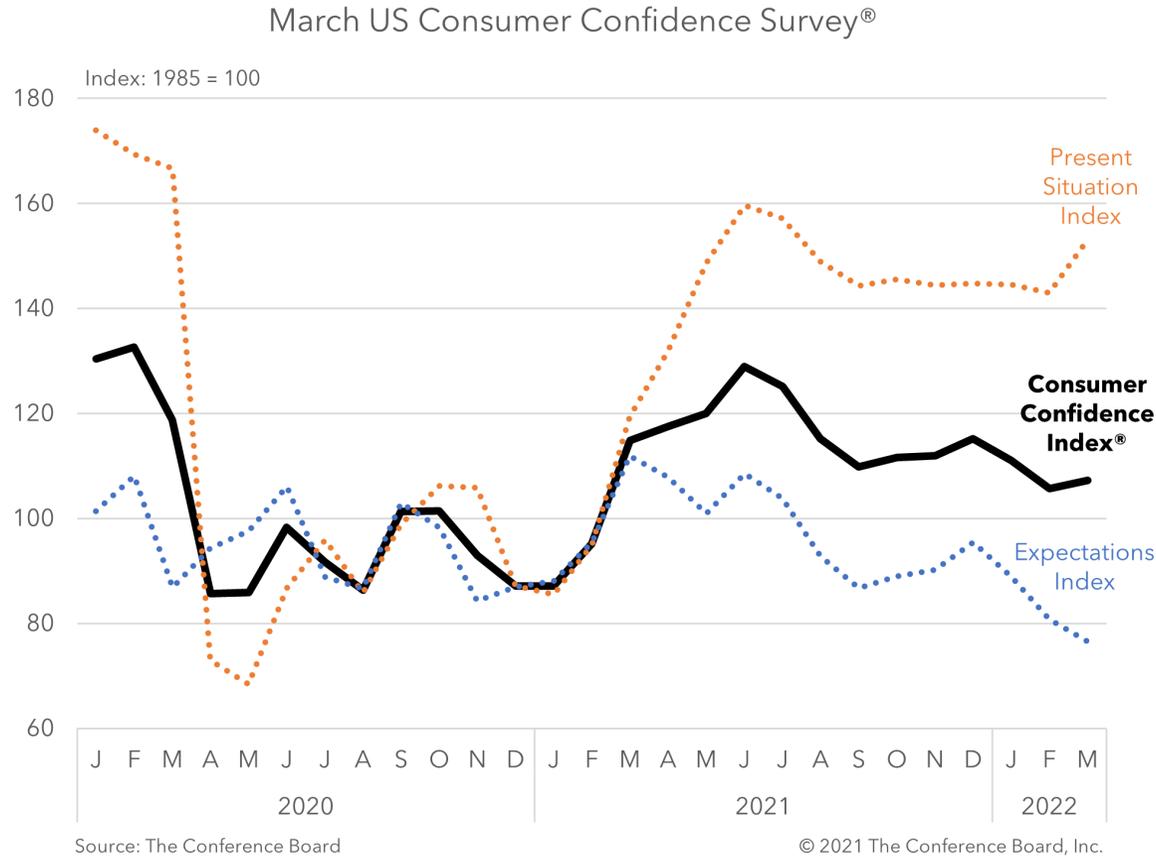
Gross Domestic Product Forecast:

- Economic growth will slow in 2022 and 2023 - Ukraine Crisis and increasing expectations for inflation due to rising commodity prices
- Most severe increases are in energy, food and metals which will cause erosion of purchasing power damaging consumer spending and slowing economic growth
- The Federal Reserve began to raise interest rates in March and will continue, possibly five 25 basis point increases, or more over the course of the year

Source: The Conference Board, March 2022



Economic Outlook- Consumer Sentiment



- **Present Situation Index** — assessment of current business and labor market conditions suggests that economic growth continued into Q1.
- **Conference Board Consumer Confidence Index®** was up slightly in March.
- **Expectations Index** – short-term outlook for income, business, and labor market conditions weakened. Consumers cited rising prices, especially at the gas pump, and the war in Ukraine as factors. With inflation expectations up consumer confidence and spending will continue to face headwinds and cool in the months ahead.

Source: The Conference Board, March 2022



Economic Outlook – Higher Costs & Slower Economic Growth Ahead

- Energy - Oil and Natural Gas Prices Rising - where will new supply come from?
- Agriculture and Food – Reduced supplies and increased prices for wheat, corn, meat, and fertilizer impacts global food security; could impact production of alfalfa, cattle and dairy in Nevada
- Supply Chain Disruptions and Shipping Problems – will continue to impact, especially in manufacturing materials like metals and gasses (90% of Neon used in computer chips comes from Russia and Ukraine)
- Inflation - expectations are up, Fed is raising interest rates to combat inflation & slow the economy
- Consumer Sentiment – is fragile, higher costs and interest rates could mean less consumption
- Washoe County – higher costs for fuel, utilities, supplies, construction
- How long will it last?

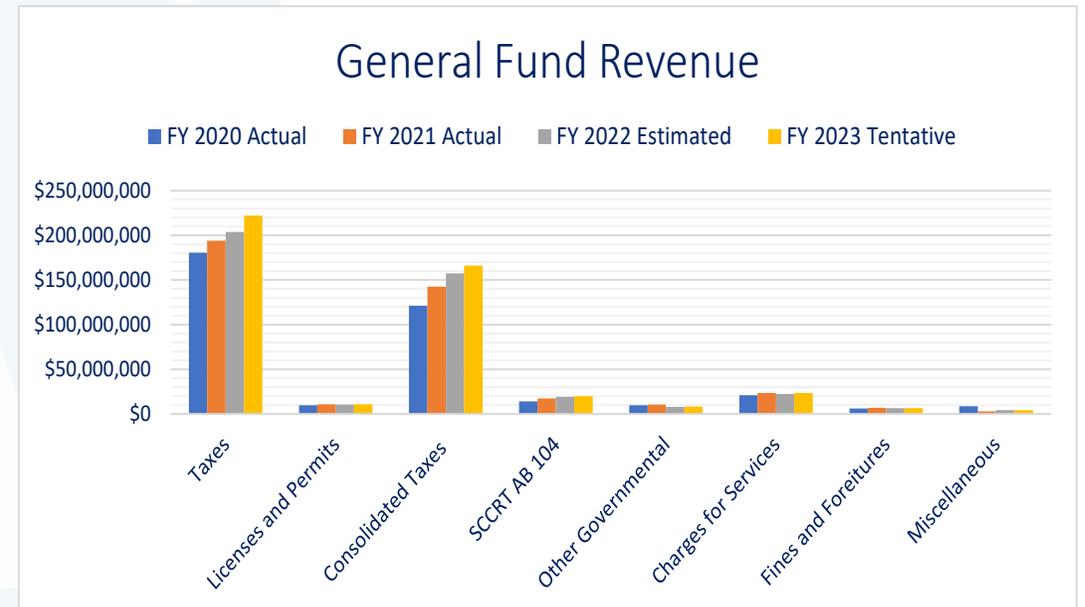
Sources: Moody's Analytics and UNR Center for Economic Development



FY 2023 Budget Outlook

As Economic Growth Slows Revenue Growth Will Also Slow

- Property Tax State Dept. of Taxation final projection 9.0%
- Taxable Sales/C-Tax estimate slightly more conservative than State's projection 5.5%
- Fines and Fee revenues continue to trend lower
- Other Revenues projected for slow growth or flattening
- Total General Fund revenue growth of 6.8% projected for FY 2023





FY 2023 Budget Outlook

Base Budget Increases

(contractual obligations, supplies, utilities and collective bargaining)

Legislative Impacts

(unfunded mandates from 2021 Session)

Property Tax Refunds

(legal settlement 2nd year of refunds)

CARES Campus Operations

Infrastructure Score Card

(maintain assets & CIPs \$250M+ in identified needs)

Above Base Requests

(\$35 million and 142 FTEs requested)

Expenses Expected to Increase Faster than Revenue - Resources Will Not Support All Needs and Requests in FY 2023

The Waterfall of Priorities to Consider

Questions?

