



Executive Summary of Fiscal Year 2019 Tentative Budget

Attached is the Fiscal Year 2019 Washoe County Tentative Budget. The budget, summarized in Schedule A, is comprised of 21 Governmental Funds and 6 Proprietary Funds, with total appropriations of \$653,003,604. The combined appropriations of Governmental Funds total \$559,945,150 and operating and other expenses in the Proprietary Funds total \$93,058,454. This Executive Summary provides a summary of local economic trends and an overview of the operating assumptions used in the development of the County's 2019 General Fund budget.

Washoe County	
Fiscal Year 2019 Tentative Budget Appropriations*	
Governmental Funds	
General Fund	\$ 342,285,546
Special Revenue Funds	179,786,922
Capital Funds	25,878,121
Debt Funds	11,994,561
Total Governmental Funds	\$ 559,945,150
Proprietary Funds	
Enterprise Funds	\$ 21,887,822
Internal Service Funds	71,170,632
Total Proprietary Funds	\$ 93,058,454
Total Appropriations- All Funds	\$ 653,003,604

* Total appropriations includes expenditures, contingencies & transfers out

Economic Conditions

The northern Nevada regional economy, including Washoe County, has continued to see improvement and growth. Some of the economic measures pointing to the strength of the economy in Washoe County include:

- Washoe County's most recently reported unemployment rate (February 2018) was 4.2%, which is below the statewide rate of 4.9%. The national unemployment rate is 4.1%.
- Since February 2010, when the County's unemployment rate was 13.4%, total employment has increased by more than 44,000 jobs, or 23%.
- Washoe County is part of the West Region, as measured by the Consumer Price Index for All Urban Consumers (CPI-U). The CPI-U is up 3.1% over the prior year.
- The Reno MSA Leading Economic Index (RLI) increased by 1.99% from February 2017 to 2018. The RLI predicts the region's economic activity based on ten local, regional and national data series that are aggregated using a combination of composite and econometric techniques. The current trend in this leading economic index is indicating expected growth in the regional economy over the next year.



Along with the increase in employment, the County is also experiencing increased population growth and business spending due to the development of major industrial plants in the area. The associated residential construction needed to fill the current housing gap in the area is struggling to keep pace. Residential home prices and rents are increasing, as are mortgage interest rates, which has led to an increased need for affordable housing. This growth, referred to by many as the “Tesla Effect”, will eventually normalize in the region, but continued economic growth is expected in Fiscal Year 2019.

Fiscal Year 2019 General Fund Budget Highlights

With the growth in population and continued improvement of the local economy, the demands and costs to provide County services to the community are also increasing. These costs are outpacing the County’s revenue growth. Revenues are not sufficient to sustain known cost increases, and to cover all cost increases due to legislative impacts, emerging issues, and capital improvement needs. Therefore, the County’s Fiscal Year 2019 budget outlook is “guarded”, and departments were asked to hold the line on existing budgets, and to prioritize and reallocate resources from existing budgets, as no new revenue is anticipated for above base budget requests.

Sources:

General Fund total sources, which includes revenues and transfers-in are budgeted to total \$341,085,653, which is an increase of \$8,210,798, or 2.5% in Fiscal Year 2019. Over 80% of the County’s General Fund revenues derive from two sources: the Ad Valorem Property Tax and the Consolidated Tax (C-Tax)

The County’s single greatest source of General Fund revenue, property taxes, has taken more than a decade to recover from the economic downturn of the Great Recession and the impact of property tax abatement. A total of more than \$200 million of property tax revenue has been abated since Fiscal Year 2006. For fiscal year 2019, the County is projecting total General Fund property taxes of \$169,030,246, an increase of \$7,269,823, or 4.5%, which includes the one-time non-abated taxes due for new construction. The abated amount of property tax revenue, which represents property tax revenue not received by the County, for Fiscal Year 2019 totals over \$24 million.

In the current fiscal year, 2018, taxable sales in Washoe County are up 6.3% over the prior year-to-date, as compared to 4.4% statewide. The County’s C-Tax revenues are up 8.8% over the same period last year. Major components associated with this positive trend are increases in sales tax revenues, real property transfer taxes and governmental service taxes, up 7.5%, 26.7% and 12.7% respectively. However, growth in C-Tax revenue will be flat in Fiscal Year 2019 due to a refund of an overpayment of these taxes to a taxpayer, estimated to total \$4.6 million for Washoe County.

Charges for services revenue will decrease by \$949,436 due to a reduction in overhead for indirect costs charged internally to special revenue and proprietary funds. The County prepares an annual Indirect Cost Allocation Plan in accordance with the Office of Management and Budget (OMB) Code of Federal Regulations Part 200, Title 2, Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards.

Uses:

General Fund total uses, which includes expenditures, transfers out, stabilization reserves and contingency are budgeted to total \$342,285,546, an increase of \$9,410,691, or 2.8% in Fiscal Year 2019.



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As a service providing organization, the County's largest General Fund expenditure category, approximately 71%, is for personnel costs. Over the last decade, the number of full time equivalent employees employed by Washoe County has decreased by 8%, however, the County's population has grown by 17%. While the County has become more efficient in its service delivery through the use of technology, contracting services, organizational restructuring and process improvements, it does not currently have the financial resources to hire additional employees to meet increased demands for services and new programs.

Personnel costs, which include expenditures for salaries and wages, employee benefits and other post-employment contributions for Fiscal Year 2019 are budgeted to total \$244,038,673, which is an increase of \$7,931,000, or 3.4%. The increase is primarily due to contractual cost-of-living increases in the final year of the County's three-year collective bargaining agreements with its employee associations.

Washoe County continues to feel the extraordinary financial impacts from two flooding events last year that were declared federal disasters, the January flooding of the Truckee River and the February flooding of the North Valleys. In addition to costs incurred last fiscal year for response to these disasters, this year the County has earmarked General Fund contingency in the amount of more than \$1.7 million and has eliminated its entire Stabilization fund of \$3.0 million to fund costs for repairs and ongoing maintenance, which will result in an estimated reduction of over \$2.7 million General Fund balance at the end of Fiscal Year 2018. While the County has filed reimbursement claims for the expenditures that are eligible for a 75% reimbursement from FEMA, all of these claims are currently pending reimbursement. Reimbursements received will be used to replenish the Stabilization Fund, per previous Board Direction.

For fiscal year 2019, services and supplies expenditures are budgeted to total \$54,476,845, which is an increase of \$4,325,838, or 8.6%. The County has budgeted continuing ongoing costs of \$1.2 million, for pumping and maintenance of the flood barrier in the Lemmon Valley area as a result of the North Valleys Flooding. Costs for contracted detention center medical services will increase by over \$200,000, and for pre-trial sentencing services provided by the State costs will increase by \$346,000. In addition, payments to other various agencies and for equipment services will go up \$273,353 and \$203,628 respectively.

The County is currently in the process of evaluating impacts related to the legalization of recreational Marijuana, and has budgeted \$464,344 in undesignated expenses, pending policy direction in Fiscal Year 2019. There are also several other legislative impacts and emerging issues that will affect the County's General Fund budget. On the horizon, are future costs resulting from AB97 for sexual assault kit testing, after the temporary two-year funding from the State ends at the end of Fiscal Year 2019.

In Fiscal Year 2019, the County's capital improvement program will receive a \$5,318,000 transfer from the General Fund for various projects that were prioritized from over \$16,000,000 in requests. In addition, the County has identified estimated capital expenditure needs of over \$200,000,000 for Information Technology infrastructure replacements, a North Valleys Library, a new Second Judicial District Court building, senior facilities, an infirmary at the detention center and regional parks, trails and open space expansions, for which no funding sources are currently available .

As discussed earlier, the County's expenditures are growing faster than revenues. A five-year forecast of the County's General Fund prepared in January 2018, indicated a preliminary budget deficit of \$3,200,000 for Fiscal Year 2019, and structural deficits through Fiscal Year 2021. With a "guarded" outlook and



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direction to hold the line on existing budgets, the County has been able to reduce the projected General Fund deficit for Fiscal Year 2019. As a result, total sources and uses for the General Fund will be balanced utilizing a one-time reduction of fund balance of \$1,199,893. The reduction is primarily due to the anticipated one-time refund of \$4,600,000 for the C-Tax overpayment.

Washoe County's current policy is to maintain an unrestricted General Fund balance of between 10 and 17 percent. Based on the tentative Fiscal Year 2019 Budget, the estimated General Fund balance as of June 30, 2019, will be \$46,646,937, which represents 13.7% of estimated expenditures and transfers out not including capital outlay. The estimated General Fund balance is within the policy level. A summary of the Washoe County General Fund Fiscal Year 2019 Tentative Budget in terms of total sources and total uses, with comparisons to prior years is shown below:

Washoe County FY 2019 General Fund Budget

Sources and Uses	FY17	FY 18 Adopted	FY18 Adjusted	FY18 Year-End	FY19 Tentative	FY19 vs. FY18	FY19 vs. FY18
	Actual	Budget	Budget	Estimate	Budget	Adopted	Adopted
						\$ Var.	% Var.
Revenues and Other Sources:							
Taxes	\$ 153,207,221	\$ 161,760,423	\$ 161,760,423	\$ 161,760,423	\$ 169,030,246	7,269,823	4.5%
Licenses and permits	9,491,540	9,602,200	9,602,200	9,602,200	9,677,200	75,000	0.8%
Consolidated taxes	100,335,898	108,942,685	108,942,685	108,942,685	109,789,819	847,134	0.8%
Other intergovernmental	21,323,308	21,638,963	21,638,963	21,632,463	22,539,740	900,777	4.2%
Charges for services	19,589,902	20,064,285	20,135,835	20,644,876	19,114,849	(949,436)	-4.7%
Fine and forfeitures	6,955,456	6,881,550	6,881,550	6,801,550	6,830,550	(51,000)	-0.7%
Miscellaneous	2,131,215	3,647,349	3,647,349	3,746,441	3,765,849	118,500	3.2%
Total revenues	313,034,539	332,537,455	332,609,005	333,130,638	340,748,253	8,210,798	2.5%
Other sources, transfers in	287,228	337,400	337,400	337,400	337,400	-	0.0%
TOTAL SOURCES	313,321,767	332,874,855	332,946,405	333,468,038	341,085,653	8,210,798	2.5%
Expenditures and Other Uses:							
Salaries and wages	142,429,679	148,156,728	148,308,457	149,744,017	153,683,793	5,527,065	3.7%
Employee benefits	67,360,336	71,047,915	71,070,476	70,753,330	73,485,552	2,437,636	3.4%
OPEB contributions	15,431,094	16,903,030	16,903,030	16,903,030	16,869,328	(33,702)	-0.2%
Services and supplies	50,287,500	50,151,007	51,680,362	49,069,003	54,476,845	4,325,838	8.6%
Capital outlay	877,433	402,048	493,176	493,176	551,548	149,500	37.2%
Total expenditures	276,386,042	286,660,728	288,455,501	286,962,557	299,067,065	12,406,337	4.3%
Transfers out	42,441,631	43,933,234	44,487,069	47,483,418	41,718,481	(2,214,753)	-5.0%
Stabilization	-	-	-	-	-	-	0.0%
Contingency	-	2,280,893	1,746,058	1,746,058	1,500,000	(780,893)	-34.2%
TOTAL USES	318,827,673	332,874,855	334,688,628	336,192,033	342,285,546	9,410,691	2.8%
Net Change in Fund Balance	\$ (5,505,906)	\$ -	\$ (1,742,223)	\$ (2,723,995)	\$ (1,199,893)	\$ (1,199,893)	na
Beginning Fund Balance	56,076,731	49,487,866	50,570,825	50,570,825	47,846,830		
Ending Fund Balance	\$ 50,570,825	\$ 49,487,866	\$ 48,828,602	47,846,830	46,646,937		
Fund Balance %*	15.9%	14.9%	14.6%	14.3%	13.7%		

*as % of Expense & Transfers less Capital



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Conclusion

Washoe County's Fiscal Year 2019 Tentative Budget reflects a fiscally sustainable approach. The County recognizes that General Fund revenues are not sufficient to sustain known cost increases, and to cover all cost increases due to legislative impacts, emerging issues, and capital improvement needs. Therefore departments were asked to hold the line on existing budgets, and to prioritize and reallocate resources from existing budgets where possible.

The County continues to feel the financial impacts of the two federally declared disasters of last fiscal year, in the elimination of its Stabilization Reserve, which is estimated to result in a reduction to General Fund balance for Fiscal Year 2018. There are also ongoing costs for maintenance of the flood barriers installed last year. In addition, the County is facing a significant one-time cost to refund the overpayment of C-Tax, which will result a budgeted reduction of General Fund balance.

Washoe County is committed to providing regional leadership and quality customer service for its residents, despite the current challenges. The County recognizes fiscal sustainability as a strategic priority, and even with the reductions in fund balance this fiscal year, and budgeted for Fiscal Year 2019, will continue to maintain a strong and healthy fund balance for Fiscal Year 2019 in its General Fund. The County shares one of the highest bond ratings, AA/Aa, in northern Nevada.

Respectfully submitted,

Christine Vuletich
Assistant County Manager