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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the July 2021 Financial Report

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

The monthly financial report, developed in response to the COVID-19 pandemic, provides timely information and data related to the City's financial position and the local economy. With the state having moved into Phase 5 of the Restore Illinois Plan, monthly reporting will become less focused on the month-to-month performance of revenue indicators and more focused on broader financial discussions around the short- and long-term health of the City's financial position. The July report reviews the overall performance of the City budget through the first six months of 2021.

DISCUSSION:

Economic Indicators

Last month, Governor J.B. Pritzker officially moved the state into the final phase of the COVID-19 response efforts. The move opened all sectors of the state's economy and allows for large gatherings and festivals for the first time in more than a year. City staff continues to monitor various revenue streams and notes that several areas of the local economy are returning to pre-pandemic levels. Last month, staff indicated that reporting will focus less on monthly changes in revenues; however, there is activity in the monthly revenues worth highlighting in this report.

State-Collected Revenues: Revenues collected by the state continue to exceed expectations with the five key revenues exceeding budget projections by 50% in June. The City received a combined \$8.26 million through the state collected revenues detailed below. State income tax exceeded \$2 million for the second consecutive month, which was more than double our monthly budget projection. The monthly outperformance is partially attributable to the delayed tax filing deadline but overall, income tax is still \$3 million above last year's receipts through the first six months of the year.

Sales taxes also continued to exceed projections. The combined state sales and home rule sales tax (HRST) revenues were nearly 40% over projections. A portion of the increase is tied to the shift in recognizing online sales under general sales tax rather than local use tax.

Motor fuel tax is also showing signs of recovery exceeding monthly budget projections by more than 16% and now just 2% below budget for the year.

June State-Collected Revenues

Revenue	Projection (\$)	Actual (\$)	Difference (\$)	Difference (%)
Sales Tax	2,752,533	3,715,403	962,870	35.0%
State Income Tax	906,123	2,176,943	1,270,820	140.2%
Home Rule Sales Tax	935,099	1,396,410	461,311	49.3%
Motor Fuel Tax/TRF	412,863	481,790	68,927	16.7%
Local Use Tax	498,727	490,241	(8,486)	-1.7%
Totals	5,505,345	8,260,787	2,755,442	50.1%

In total, state-collected revenues exceed budget projections by 14.6% through June. Compared to 2020, significant increases in state-collected revenues occurred in the first half of 2021. In addition to the \$3 million increase in state income tax, state sales taxes were up \$1 million over last year. Local use tax is also up \$604,000 over 2020 and home rule sales tax is up \$312,000. This is notable as pandemic impacts to state revenues were not realized until June and July in 2020 due to regular delays in state disbursements.

YTD State-Collected Revenues through June

Revenue	Projection (\$)	Actual (\$)	Difference (\$)	Difference (%)
Sales Tax	16,050,577	17,960,842	1,910,265	11.9%
State Income Tax	7,707,053	10,829,776	3,122,723	40.5%
Home Rule Sales Tax	6,809,628	6,700,840	(108,789)	-1.6%
Motor Fuel Tax/TRF	2,761,870	2,700,456	(57,814)	-2.1%
Local Use Tax	2,967,948	3,385,869	417,921	14.1%
Totals	36,297,077	41,581,383	5,284,307	14.6%

Locally Collected Revenues: Taxable sales data for the four locally collected revenues continued to show strength in May. Food and beverage receipts exceeded \$40 million for the first time since December 2019. Receipts from the period totaled \$44.39 million, which is more than double May 2020 and nearly \$1 million more than May 2019.

The real estate market also continues to be strong, as transfer stamp totals reflect \$153 million in property sales in May. Through five months, more than \$664 million in property was sold in the City. The last time the City began the year with sales exceeding \$600 million through May was 2017.

Local gasoline sales continue to inch closer to pre-pandemic levels with \$4.82 million in May receipts. The total was the highest received since February 2020 when sales exceeded \$5 million. Next month, the City will get a better gauge on the hotel and motel industry when the second-quarter receipts are received.

Monthly Taxable Sales through May

Month	Food & Beverage	Hotel/Motel	Local Gas	Real Estate
January	26.24	0.27	4.23	146.00
February	28.12	0.47	4.10	83.48
March	37.24	5.23	4.04	153.88
April	39.34	0.30	4.30	127.85
May	44.39	0.46	4.83	153.14
YTD Totals	175.45	6.73	21.50	664.35
\$ in millions				

Six-Month Budget Review (January - June)

At the midway point, the City continues to show positive trends in both revenues and expenses. Citywide revenues totaled \$220.45 million, which is a 4.2% increase over last year.

The General Fund finished the first half with \$66.56 million in revenues. After removing anticipated increases tied to interfund transfers, General Fund revenues were up 12.6% from last year and outpaced projections by \$5.96 million. Much of the increase comes from better-than-expected state shared tax revenues, which totaled \$26.07 million, 17.5% more than 2020.

The City also benefitted from an active real estate market, as property transfer stamps nearly doubled from 2020. Through June, the City received \$3.17 million from real estate transfer stamps, which is three-quarters of the \$4.20 million projection for the full year.

The six-month budget report is the first to also include property tax payments, as the City received the first installments from both counties totaling \$25.37 million. The total is down \$1.25 million from last year, but still tracking in line with projections. Will County offered property owners the option to pay in four installments this year instead of the normal two installments. This may spread receipts out more than in prior years.

Both utilities continued to show revenue growth tied to increased consumption. Electric charges totaled \$69.77 million, a 1.8% increase from last year. Even with the 2% reduction in rates, revenue from retail rates, demand charges, and customer charges are all tracking nearly identical to 2020, indicating that consumption is higher in 2021. Higher electricity costs are driving an increase in Purchased Power Adjustment (PPA) revenue at \$2.99 million through the first half of the year.

Water and wastewater charges totaled \$31.79 million, a 6% increase over 2020. Water charges totaled \$19.74 million, a 6.5% increase, while wastewater charges totaled \$11.38 million, a 2.5% increase. Even with the programmed rate increases beginning January 1, 2021, water revenues are outpacing projections based on increased consumption.

Revenues	2021 Budget	2021 YTD Projection	2021 YTD Actual	Variance
Maint. & Operating Funds	410.79	185.60	184.66	(0.94)
Capital Funds	51.90	18.08	20.41	2.33
Special Funds	33.13	15.82	15.38	(0.43)
Total	495.80	219.50	220.45	0.95
*\$ in millions				

Citywide expenses totaled \$195.36 million, a 4.6% increase from last year. After removing purchased electric and water, as well as interfund transfers, overall expenses were \$129.22 million, a 5.8% increase over last year.

Salaries and benefits account for \$76.38 million in expenditures, a 4.7% increase over 2020. The increase is in line with what the City expected based on budgeted rate increases in salaries and medical and dental coverage.

Purchased electricity expenses totaled \$52.60 million through June, which is a 2.8% increase over 2020. Purchased water expenses are also up 6.8% from last year and total \$9.67 million through June. The increased consumption ties to the increased revenues both utilities experienced through June.

The City is seeing normalization in other expenses compared to last year when spending slowed significantly in the second quarter due to the pandemic. Purchased services, supplies, and capital expenses are all up more than 15% compared to last year but remain below projected spending in 2021. A total of \$13.13 million has been spent on capital, an 18.6% increase over last year. Capital expenses were only 16% to budget through June but are anticipated to accelerate with construction underway on several projects.

Expenses	2021 Budget	2021 YTD Projection	2021 YTD Actual	Variance
Maint. & Operating Funds	407.32	176.68	172.88	(3.80)
Capital Funds	60.47	14.58	7.22	(7.36)
Special Funds	34.63	15.25	15.26	0.00
Total	502.42	206.52	195.36	(11.16)
*\$ in millions				

2021 CIP Progress

The bulk of the City's capital spending has been on infrastructure items, which totaled \$9.10 million through June. Most of the expenses have come from the utility funds, including \$4.62 million from Water, with the advanced metering infrastructure (AMI) and emergency well rehabilitation accounting for most of that amount. Electric has expensed an additional \$2.71 million, primarily through the cable replacement program.

The only category exceeding 25% of the budget to date is Vehicles and Equipment. The City expensed \$1.74 million for fleet additions and replacements, which is 42% of the total budget for the year. Some of those expenses are carried over from 2020 as delivery of some vehicles was delayed by the pandemic, with the Bearcat police rescue vehicle being one example. All capital expenses are anticipated to increase in the coming months, as projects are completed and vendors begin issuing invoices on larger projects, such as the street maintenance improvement program (MIP), East Highlands project, and Moser Tower rehabilitation.

Capital Items	2021 Budget	2021 Actual (June)	2020 Actual (June)	Variance
Infrastructure	64.24	9.10	7.01	2.08
Building Improvements	8.63	1.64	0.79	0.85
Vehicles & Equipment	4.12	1.74	1.88	(0.14)
Land	3.27	-	-	-
Technology	3.07	0.65	1.39	(0.73)
Total	83.33	13.13	11.07	2.06
*\$ in millions				

Updated 2021 Borrowing Forecast

Last year, the pandemic presented significant challenges in forecasting revenues, and \$6.25 million in HRST was earmarked to support General Fund operations. That strategy reduced available funds for capital projects, which in turn were to be funded through borrowing. Through June, General Fund revenues exceeded projections by \$6.16 million, providing staff with confidence the HRST revenues will be shifted back for use on capital projects, reducing the original \$13.32 bond issuance planned for non-utility capital projects in 2021.

Several projects have come in under budget this year, including the street MIP, as well as the East Highland Area Improvements. In addition, staff anticipates delays in land acquisition for the Washington Street Bridge project, lowering the projected borrowing for 2021. Those pieces, along with other smaller savings and potential delays, significantly reduce borrowing projections.

Additionally, the Water Fund appears on track to cover most capital needs through their rate revenue in 2021. The Water Utility has approximately \$13.20 million programmed into the current rate structure to support capital needs. Through June, Water expensed a total of \$5.03 million on capital. Included in that total is \$2.12 million on the AMI project, which was programmed for borrowing due to the \$7.16 million cost and 20-year life span of the technology. Additional bond proceeds were initially programmed into the Water Fund to ensure adequate funding for other projects. However, some favorable contract awards and delays related to supplies and permit reviews are likely to ease borrowing needs in 2021. At this point, the only borrowing necessary will likely be the AMI project.

Because unanticipated delays often occur in capital projects, the City utilizes a reimbursement method of borrowing in that the City Council authorizes a maximum borrowing amount in January and staff tracks capital expenditures throughout the year. Bonds are then issued in the third or fourth

quarter to cover actual expenses, thus decreasing the chances of over-borrowing.

	2021 Budget Amount	Revised Projection	Difference
Bond Fund	\$13.32	\$4.07	\$9.25
Water Utilities Fund	\$14.46	\$7.16	\$7.30
Total	\$27.78	\$11.23	\$16.55

*\$ in millions

Looking Ahead

As we enter the second half of 2021, staff continues to be vigilant in monitoring longer-term impacts on the economy coming out of the pandemic. While revenues are no longer a primary concern, supply chain and inflationary issues continue to linger in several sectors of the economy. These issues are presenting challenges for some City departments from both a pricing and item availability perspective. Utility supplies and equipment, technology hardware, and vehicles continue to be areas of concern. So far, staff has been able to actively manage these issues to avoid any impact on City services, and cost increases are being managed through savings in other areas of the budget.

The 2022 budget season officially kicks off in August. Over the past month, the Budget Team met with each City department to review progress on the 2021 budget and to discuss priorities for the coming year. Staff will continue reporting to the City Council in August and September through the monthly financial report and transition to budget workshops in October and November.

FISCAL IMPACT:

N/A