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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the Preliminary 2021 Year-End Financial Report

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

Regular monitoring and reporting served the City well over the past two years of economic uncertainty driven by the pandemic. Monthly financial reports to the City Council help inform the public on important issues related to City finances, including discussions around short- and long-term financial strategies.

In 2022, staff will continue to monitor and report on national, state, and local economic trends that impact the City's financial position. Monthly reports may also introduce financial topics that require immediate attention or consideration in the next budget cycle. This first report of the year provides a preliminary, unaudited review of the City's 2021 financial results.

DISCUSSION:

While the pandemic continued to impact everyday life in 2021, the City experienced a robust economic recovery, with nearly all revenue streams fully recovering to pre-pandemic levels. Some revenues, such as sales and income taxes, even experienced growth beyond what was normal before the pandemic. The drivers behind some of these experiences, such as the application of sales tax to most online purchases, were discussed throughout 2021 financial reporting. However, other revenues, such as commuter parking fees and hotel and motel tax, remained in recovery.

As most revenues recovered in 2021, new concerns were raised over supply chain issues impacting the City's ability to purchase materials, equipment, and supplies, as well as general price inflation across various economic sectors. Staff closely monitored price inflation for goods and services and remained within budget in most spending categories.

The following is a preliminary review of the City's budget performance in 2021.

Summary by Fund

The table below summarizes actual revenues and expenditures recorded through December 31, 2021. These are preliminary, unaudited numbers and will change as the City continues to pay 2021 invoices through the end of January.

	Revenues	Expenditures	Margin
Maintenance & Operating			
Commuter Parking Fund	0.94	1.55	(0.60)
Electric Utility Fund	154.23	149.37	4.86
General Fund	141.41	128.45	12.97
Self-Insurance Fund	25.48	18.90	6.58
Solid Waste Fund	7.02	6.53	0.49
Water Utilities Fund	70.06	66.82	3.24
Capital & Debt Service			
Bond Fund	(0.01)	11.42	(11.43)
Capital Projects Fund	16.86	3.95	12.90
Debt Service Fund	10.48	12.30	(1.82)
Downtown Parking Fund	1.47	1.10	0.37
Motor Fuel Tax Fund	9.19	6.17	3.02
Phosphorus Fund	1.42	-	1.42
Road and Bridge Fund	2.61	2.43	0.18
SSA #21 - Van Buren Deck Fund	-	0.22	(0.22)
SSA #23 - Naper Main Fund	0.10	0.10	-
SSA #25 - Lacrosse Fund	0.05	0.05	-
SSA #30 - Downtown Streetscape	-	-	-
SSA #31 - Downtown Streetscape	0.03	-	0.03
Water Street TIF Fund	0.36	0.36	(0.00)
Special Funds			
Comm. Dev. Block Grant Fund	1.29	0.98	0.32
E911 Surcharge Fund	2.79	3.22	(0.43)
ETSB Fund	2.15	2.33	(0.18)
Federal Drug Forfeiture Fund	0.16	0.00	0.16
Food and Beverage Fund	4.60	3.12	1.48

Foreign Fire Tax Fund	-	-	-
Library Capital Fund	0.00	-	0.00
Library Fund	15.75	14.86	0.90
Library Special Revenue Fund	0.01	0.03	(0.02)
Naper Settlement Fund	3.38	4.09	(0.71)
Renewable Energy Fund	0.39	0.84	(0.46)
SSA #33 - Downtown Maint. Fund	2.63	2.25	0.37
State Drug Forfeiture Fund	0.07	0.03	0.03
Test Track Fund	0.01	0.03	(0.02)
Grand Total	474.91	441.53	33.38

\$ in millions

Across all funds, total revenues exceeded total expenditures by \$33.38 million. The City's three primary operating funds - General Fund, Electric Utility Fund, and Water Utilities Fund - all realized revenues above expenditures. General Fund revenues were particularly strong and topped expenditures in the fund by nearly \$13 million.

Revenue Summary by Category

State Shared Revenues

State shared revenues mounted an impressive recovery in 2021 and experienced few, if any, lingering pandemic impacts.

- State income tax at \$19.5 million exceeded budget by 43% and rose 22% from 2020.
- State sales tax at \$40.5 million exceeded budget projections by 23% and rose 21% over 2020.
- The rapid growth in local use tax leveled off in 2021 but remained strong at \$6.1 million, 5% more than projected.

Local Taxes

Most revenues in this category also recovered well, with the only remaining area of weakness being hotel/motel taxes.

- Home rule sales tax rose to its highest level since inception, totaling \$15.8 million, and exceeded projections by 21%.
- Food and beverage taxes totaled \$5.3 million, exceeding budget projections by 12% and increasing 39% from 2020.
- Real estate transfer tax was the best performing revenue in 2021, coming in at \$7.4 million, an increase of 74% over 2020.
- Hotel/motel tax totaled \$1.2 million (net of rebates), which was 10% more than projected but still 50% below pre-pandemic levels.

Service Charges

Service charges, including electric, water, and wastewater charges, account for more than half of total revenues at \$237.3 million. In total, these revenues performed close to budget projections.

- Electric charges totaled \$150 million, which was in line with 2020 revenue but fell short of budget projections by about 3%.
- Water and wastewater charges, in total, aligned with budget projections at \$70.3 million. Water charges exceeded projections by 7% due to the hot, dry summer.

- Ambulance fees totaled \$6.9 million and exceeded budget projections by 16%.

Other Revenues

Most of the City's other revenues came in at or above budget projections for the year.

- Property tax collections were in line with amounts levied across all categories and totaled \$55.5 million.
- Building permit revenue totaled \$1.4 million, which is 29% higher than 2020 revenue.
- Commuter parking revenue remained weak in 2021, with total revenue for the fund coming in at \$943,000, which is just 76% of the amount budgeted. This includes permits and daily parking fees, as well as parking ticket revenue.

Expenditure Summary by Category

Salaries, Wages, and Benefits

Across all funds, salaries and wages were in line with the budget.

- Salaries and wages totaled \$101.7 million, which is 98% of the \$103.4 million budget.
- Overtime pay at 98% of the amount budgeted was in line with projections.
- General Fund salaries and wages ended the year slightly higher than expected at 103% of budget. Actual salaries and wages came in close to 100% of budget; however, the historical vacancy factor was not met partly due to higher-than-expected payouts of leave time at retirement, particularly in public safety.

Benefits associated with payroll, including pension contributions, payroll taxes, and employer insurance contributions were all in line with the budget at 97% of projections.

- Pension benefits totaled \$24.5 million, or 99% of budget. Fire pension contributions totaled \$10.3 million and police pension contributions totaled \$7.9 million, both in line with actuarial required amounts.
- Employer insurance contributions for health, dental, workers' compensation, and life insurance benefits came in slightly under budget at \$16.4 million, or 94% of budget.

Healthcare

The City's health and dental insurance plans performed well in 2021 with both programs coming in under budget. Some of the savings on the health insurance plan are attributable to employees choosing plans that are more cost-effective for the City.

- Claims related to the HMO and PPO plans totaled \$10 million, which was \$1.6 million under budget projections. Administration costs for the health plans totaled \$2.5 million, which was \$418,000 under budget.
- Dental insurance claims finished the year \$193,000 under budget.
- Savings in health and dental plans were partially offset by increased costs in the prescription drug program, which finished the year \$212,000 over budget.

Purchased Services and Purchased Items

This expenditure category includes all services and items purchased from third-party vendors, including purchased electricity and water. All categories remained within budget except for supply purchases.

- Purchased electricity from IMEA totaled \$111 million, or 94% of budget. This aligns with electric charges revenue being below budget.
- Purchased water from the DWC totals \$25.2 million, with the December invoice outstanding.

Total expenses for the year are estimated at \$26.9 million, or 104% of budget. This aligns with the higher water revenue noted above.

- Purchased services came in under budget by nearly 20% at \$33.3 million. Most of the unspent funds were professional services related to capital projects that were deferred.
- Purchased items exceeded budget by about 5% at \$22.6 million. This was due to Electric's warehouse supplies exceeding budget by \$3 million; this was an area impacted by cost inflation and supply chain issues that disrupted normal buying patterns.

Capital Outlay

Expenditures related to the Capital Improvement Program currently total \$49.4 million, which is about 60% of budget. That amount is expected to increase as final construction invoices are still being received. That said, it is likely that spending will end the year under budget for several reasons, including projects that were delayed or deferred to future years and numerous project bids coming in under budget.

- Projects with substantial work completed include the annual street maintenance program, North Aurora Road widening, East Highlands - Julian St. improvements, Central Parking Facility rehab, Cityworks technology implementation, Moser Tower rehab, electric cable replacement and injection program, Water AMI, and Naperville Heights water main replacement.
- Projects deferred to 2022 or beyond include the Washington Street bridge, North Aurora Road underpass, Naper Settlement Innovation Gateway, Edward Hospital substation expansion, DuPage River bank stabilization, and Springbrook disinfection improvements.

Final Year-End Processes

Year-end processes associated with the close of the 2021 fiscal year are underway in preparation for the annual financial audit. As part of the 2021 audit process, staff will closely examine each budgetary fund and bring a budget amendment to the City Council to address any fund that exceeded its budget. This would occur in the first or second quarter of 2022 before the audited financial statements are completed.

Staff anticipates bringing two budget amendments to Council related to the 2021 budget. Those include:

- An amendment to transfer funds from the General Fund to the Naper Settlement Fund to correct the negative cash balance established in 2020 and 2021.
- An amendment to balance spending in the Capital Projects and Bond Funds. As home rule sales tax recovered, the City did not issue debt in 2021, thus projects budgeted in the Bond Fund need to be transferred to the Capital Projects Fund.

Any additional amendments to the 2021 budget that may be identified through the audit are expected to be minor.

FISCAL IMPACT:

N/A