



Legislation Details (With Text)

**File #:** 21-0082      **Version:** 1

**Type:** Report      **Status:** Agenda Ready

**File created:** 1/12/2021      **In control:** City Council

**On agenda:** 1/19/2021      **Final action:**

**Title:** Receive the January 2021 Financial Report

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. 2020 - December Budget Report

Date	Ver.	Action By	Action	Result
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**CITY COUNCIL AGENDA ITEM**

**ACTION REQUESTED:**

Receive the January 2021 Financial Report

**DEPARTMENT:** Finance Department

**SUBMITTED BY:** Rachel Mayer, Finance Director

**BOARD/COMMISSION REVIEW:**

N/A

**BACKGROUND:**

In response to the unprecedented economic impacts of the COVID-19 pandemic, staff began issuing a monthly financial report in May 2020. This monthly report allowed Council to make strategic financial decisions at the appropriate time based on the most current information. Staff will continue to bring a financial report to the Council at its second meeting of each month in 2021. These reports will continue to track financial and economic data that provide insight into the short and long-term fiscal impacts of the pandemic. This first report of the year provides a preliminary, unaudited review of the City's 2020 financial results.

**DISCUSSION:**

The various economic and fiscal impacts of the COVID-19 pandemic have been discussed in detail during monthly financial presentations and the 2021 budget approval process. Beginning in March 2020, efforts to mitigate the spread of the virus began having a significant impact on business activity in the community, which ultimately impacted City revenues. Economically-sensitive revenue streams, such as sales, motor fuel, food and beverage, and hotel/motel taxes, were all immediately impacted by mitigation efforts that resulted in reduced consumer spending.

Early in the pandemic, staff estimated the revenue impact to the General Fund at \$18 million. Staff

continued to refine that estimate over the following months as more information became available. By the second half of the year, it became clear that revenue impacts would be less severe than the initial estimate. The pandemic’s impact on state income tax never came to fruition and sales taxes recovered to near pre-pandemic levels more quickly than anticipated. Regardless, staff continued to monitor revenues closely as constantly changing mitigation strategies made it difficult to establish clear trends.

Knowing that revenues were likely to fall short of budget projections, staff maintained a watchful eye on expenditures throughout 2020. Significant cost savings were achieved during the early months of the pandemic, particularly in the areas of healthcare, overtime, and purchased items, as activity during the stay-at-home period in March and April reduced demand on some City services and limited business activity in general. By mid-year, most spending had normalized as demand for services returned to more traditional levels. Regardless, staff continued being mindful of spending as some uncertainty remained in place.

The City did reap the benefits of federal financial assistance in 2020. The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided federal funding to DuPage and Will counties. Both counties shared funding with municipalities on a per capita basis for reimbursement of eligible expenses under the Act. The City submitted requests for \$7.2 million in reimbursement for eligible salary costs tied to providing public safety services during the pandemic. The counties approved and disbursed all \$7.2 million to the City by year-end.

What appeared to be a potentially dire financial situation for the City in March turned out to be a manageable economic downturn by the end of the year. While the City appears to have ended 2020 in a better financial position than first anticipated, staff continues to closely monitor the pandemic landscape for any indication that recovery may be delayed.

**Summary by Major Fund Categories**

The table below summarizes revenue and expenditures through the end of 2020 by comparing budgeted amounts to actual amounts. It is important to point out that these numbers are preliminary and unaudited and will inevitably change as the City continues to pay 2020 invoices through the end of January. Under normal circumstances, staff would not report year-end financials this early in the new year; however, staff found throughout the past year, timely information is critical to the Council making well-informed decisions. That said, these numbers include the vast majority of revenues and expenses to be recorded through December 31, 2020.

	Revenue			Expenditures		
	<i>Budget</i>	<i>Actual</i>	<i>Margin</i>	<i>Budget</i>	<i>Actual</i>	<i>Margin</i>
<b>Maintenance &amp; Operating Funds</b>	390.8	378.4	(12.4)	388.9	363.8	(25.2)
<b>Capital &amp; Debt Service Funds</b>	59.5	52.8	(6.7)	43.8	35.6	(8.2)
<b>Special Funds</b>	32.8	33.6	0.8	34.7	34.3	(0.5)
<b>Totals</b>	<b>483.1</b>	<b>464.8</b>	<b>(18.3)</b>	<b>467.5</b>	<b>433.6</b>	<b>(33.9)</b>

As is seen in the table, total revenues across all funds ended the year \$18.2 million below budget. That shortfall in revenue is offset by expenditures, which currently sit at \$33.9 million below budget.

The widest margin of revenues to expenses occurred in the Maintenance & Operating Funds. More detail on each of the fund categories is provided below.

### **Salaries, Benefits, and Healthcare**

Personnel-related expenses account for a significant portion of the City's total expenses, with salaries, benefits, and healthcare representing approximately 39% of expenditures across all funds. At year-end, these expense categories were generally in line with the budget, with actual expenses coming in at 92.8% of budget.

- Salaries and wages came in \$1.8 million over budget;
- Benefits and related, which includes pension obligations, came in \$848,000 under budget; and
- Insurance benefits, including claims, came in \$5.5 million under budget.

An initial analysis of salaries and wages reveals that expense category went over budget for several reasons. Fire Department salaries were over budget, which is likely due to the new collective bargaining agreement being finalized after salary projections were entered in the 2020 budget. Also, several funds fell short of their historical vacancy, including Naper Settlement which ended the year at 135.8% of budget on salaries and wages.

## **Maintenance & Operating Funds**

### **General Fund**

- Revenues - General Fund revenues represented an area of significant concern in the early months of the pandemic; however, by the end of 2020, the City had recorded \$128.2 million in revenue, which is 102.3% of budget, or an excess of \$2.9 million. This includes \$7.2 million in CARES Act grant funding, and had the City not received these funds, the resulting revenue shortfall would have been \$4.3 million. While far better than the initial estimates offered in April, staff used this knowledge in their continued conservative approach in developing the 2021 budget to protect the City's long-term financial health.

Revenue highlights included:

- Property taxes totaling \$23.9 million, or 99.7% of budget;
- State income tax totaling \$16.0 million, or 106.2% of budget; and
- Local use tax totaling \$6.0 million, or 131.1% of budget.

Revenues falling short of budget projections included:

- State sales tax revenue totaling \$33.4 million, or 94.0% of budget;
- Utility taxes totaling \$15.0 million, or 95% of budget;
- Real estate transfer tax totaling \$4.3 million, or 89.1% of budget; and
- Billable services, including ambulance fees, totaling \$6.9 million, or 88.6% of budget.

- Expenditures - Year-to-date expenses in the General Fund total \$123.4 million, which is below budget by \$1.9 million. Expenses show below budget across all major spending categories, except for salaries and benefits. Part of the year-end process is to ensure that personnel costs were properly allocated across funds and adjustments will be made before a final audit.

### **Electric Utility Fund**

The Electric Utility Fund performed well in 2020, with revenues exceeding recorded expenses by \$2.4 million.

- Revenues - The Electric Utility Fund saw revenues totaling \$152.7 million for 2020. There was

a lower demand for electricity, particularly during the early months of the pandemic when demand was reduced in commercial and government/educational sectors. Total revenue fell short of budget projections by \$7.4 million, or 4.6%; however, the lower demand for electricity results in a positive budget result on the expense side.

- Expenditures - As a result of lower demand, expenses for purchased electricity, the City's largest expense across all funds, came in \$3.9 million under budget. Overall, Electric Utility Fund expenses end the year at \$9.9 million, or 6.2% under budget.

### **Water Utilities Fund**

The Water Utilities Fund had an experience similar to Electric in 2020, with revenues exceeding recorded expenses by \$6.9 million.

- Revenue - The Water Utilities Fund received revenue totaling \$65.6 million in 2020. Similar to electricity, water demand was lower during the early months of the pandemic; however, a hot and dry summer reversed that trend. Revenue fell short of budget projections by \$3.1 million, or 4.6%.
- Expenditures - Expenses in the Water Utilities Fund totaled \$58.8 million, which is 90.0% of budget. Spending across most categories was in line with budget, except for capital outlay and purchased services, which came in at 68.9% and 76.1% of budget respectively, for a savings of more than \$5.5 million.

### **Capital & Debt Service Funds**

Like the Maintenance & Operating Funds, the Capital & Debt Service Funds ended 2020 with revenues exceeding expenses by \$17.2 million. That is mostly attributable to the increased 2020 bond issuance at \$16.0 million. This fund category includes all funds responsible for current capital project funding, as well as debt service related to the issuance of bonds for past capital projects.

- Revenues - Capital and debt service-related revenues totaled \$52.8 million, which is \$6.7 million less than budget projections. Several economically sensitive revenue streams are dedicated to funds in this category and did not perform to expectations because of the pandemic. Notable revenues in this fund category include:
  - Home rule sales tax (HRST) totaling \$12.9 million, or 91.9% of budget; and
  - State motor fuel tax, including new transportation renewal fund (TRF) dollars, totaling \$5.6 million. TRF funds were not budgeted in 2020. Additionally, the City received \$3.2 million in revenue shared through the state's Rebuild Illinois Bond program.
  - Local gasoline tax totaling \$2.1 million. This revenue fell short of estimates by \$600,000 due to reduced travel on local roads.
- Expenditures - Year-to-date expenses in the capital and debt services funds total \$35.6 million, which is 81.2% of budget. As a reminder, the City amended the budget in May to reduce capital project expenses by nearly \$25 million. Later in the year, Council authorized a plan to issue debt at a higher level than anticipated to preserve cash in the Capital Projects Fund as uncertainty around the HRST existed at the time. As part of the year-end process, staff is currently reconciling expenses between the Bond Fund and Capital Projects Fund to ensure eligible expenses are properly accounted for as part of the 2020 bond issuance.

### **Special Funds**

Revenues and expenditures across the Special Funds category performed close to budgetary expectations in 2020.

- Revenues - The primary revenue source across this category is property taxes attributable to

the Library Fund, Naper Settlement Fund, and the Downtown Maintenance and Marketing Special Service Area. Property taxes totaled \$18.9 million, meeting budget projections. Other significant revenue sources include:

- Citywide food and beverage tax totaling \$3.5 million. This revenue source is one that has been impacted by the pandemic and comes in at only 75.5% of budget for the year. In recent years, the food and beverage tax was one of the City's best performing revenues.
- E911 tax totaling \$7.9 million, of which \$4.7 million is collected on behalf of the City of Aurora. This revenue outperformed budget projections by more than \$2.7 million in 2020.
- Expenditures - Expenses in this category were in line with budget projections at \$34.3 million, which is 98.6% of budget. However, when the expense associated with the pass-through E911 revenue to the City of Aurora is excluded, expenses were just \$29.2 million and 90.8% of budget.

### **Next Steps**

Staff will continue to bring a monthly financial report before Council at the second meeting of the month. While staff will continue to report in a timely manner, the exigency that existed when the timing of this report was established has diminished with the stabilization of most revenue streams. For that reason, the monthly report will detail the finances for the prior month. This will ensure that full information is received before the publication of the monthly report. Should the situation change and require more timely information, staff will make changes to the report schedule as needed.

In 2021, monthly reporting will focus on both the fiscal health of the City and the local economy. Staff will analyze local and state revenues in hopes of identifying trends that may signal where we stand in terms of fiscal recovery. Also, staff will continue to seek opportunities to support the community and the local economy through programs such as the utility assistance program under consideration.

### **FISCAL IMPACT:**

N/A