



Legislation Details (With Text)

**File #:** 24-0427      **Version:** 1

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

**File created:** 4/8/2024      **In control:** City Council

**On agenda:** 5/7/2024      **Final action:**

**Title:** Receive the 2024 First Quarter Financial Report

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. 2024 YTD Budget Report through March 31, 2024

Date	Ver.	Action By	Action	Result
5/7/2024	1	City Council		

**CITY COUNCIL AGENDA ITEM**

**ACTION REQUESTED:**

Receive the 2024 First Quarter Financial Report

**DEPARTMENT:** Finance Department

**SUBMITTED BY:** Raymond Munch, Deputy Finance Director

**BOARD/COMMISSION REVIEW:**

N/A

**BACKGROUND:**

The Finance Department monitors revenues and expenditures throughout the year to identify trends that impact the annual budget and Capital Improvement Program (CIP). Regular financial reporting informs the City Council and the public on important issues related to the City's finances, including discussions around short-and long-term financial strategies.

This month's report focuses on the City's first quarter (Q1) budget performance and proposed actions at the state level that could impact future revenues.

The accompanying PowerPoint presentation will be distributed with the Agenda Q&A on Monday, May 6.

**DISCUSSION:**

Through the first quarter, budget performance aligns with expectations in most areas. Due to the budget's size and complexity, revenues and expenditures are summarized according to three major fund categories: Maintenance and Operating, Capital and Debt Service, and Special Funds.

Staff measures year-to-date revenues and expenditures against three milestones: the full-year

budget, a monthly projection based on five years of historical data, and the prior year’s year-to-date actual. These three measures allow for the budget to be analyzed against a single point in time (last year) and a longer time.

**Revenues**

Revenue through the first quarter across all funds totaled \$108.48 million. This is a 2.6% increase over the same period in 2023, but 4.1% lower than the current year projection of \$113.14 million. While major revenue streams remain consistent with projections, some revenues are performing below expectations. Revenues in the Special Funds exceeded prior year actuals by 57%. The variance is a result of the new quarterly transfer to the Naper Settlement Fund from the Food and Beverage Fund, as well as the timing of other interfund transfers.

**Revenue by Fund Category**

	2024 Budget	YTD Actual	% of Total Budget	YTD Projection	% of YTD Projection	2023 YTD Actual	Variance to 2023 (%)
<b>Maintenance &amp; Operating</b>	\$432.34	\$93.54	21.6%	\$94.27	99.2%	\$92.79	0.8%
<b>Capital &amp; Debt Service</b>	\$121.63	\$8.91	7.3%	\$13.86	64.2%	\$9.09	-2.1%
<b>Special Funds</b>	\$39.33	\$6.03	15.3%	\$5.01	120.4%	\$3.83	57.4%

\$ in millions

Below is a summary of major revenues and their performance against the current year-to-date projection and the same period last year.

**State Shared Revenues**

	YTD Actual	Variance to YTD Projection (%)	Variance to 2023 YTD (%)
Sales tax	\$12.47	4.2%	3.6%
Income tax	\$6.11	4.8%	6.6%
Motor fuel tax	\$1.61	-0.3%	5.4%

\$ in millions

Revenues from sales and income tax that support City services are trending above projections through the first quarter and show solid growth over 2023. Motor fuel tax is in line with projections. The Illinois Municipal League released updated per capita revenue forecasts in February that align with the higher-than-expected income tax receipts.

**Local Tax Revenues**

	YTD Actual	Variance to YTD Projection (%)	Variance to 2023 YTD (%)
Hotel/motel tax	\$0.82	-14.6%	5.6%
Food & beverage tax	\$1.70	-3.0%	4.3%
Real estate transfer tax	\$0.66	-19.8%	-20.0%

Home rule sales tax	\$5.17	13.3%	1.1%
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\$ in millions

Hotel/motel and food and beverage taxes came in short of budget projections through Q1 but showed continued growth year over year. Real estate transfer tax continues to fall short of expectations due to low sales volume, presumably tied to interest rates that remain elevated.

**Utility Charges & Other Revenues**

	YTD Actual	Variance to YTD Projection (%)	Variance to 2023 YTD (%)
Electric charges	\$34.30	-2.6%	-2.0%
Water charges	\$10.53	0.4%	5.7%
Wastewater charges	\$6.79	-10.0%	4.2%
Utility taxes	\$4.18	7.3%	-12.0%
Other charges	\$4.84	-5.0%	-11.6%

\$ in millions

Electric charges continue to decline as customer energy use declines, falling 2% from the prior year. However, installation fees are strong within the Electric Utility Fund through the first quarter. Revenues totaled \$1.57 million, representing an increase of 195%; of this, \$1.29 million is related to the Polo Club development. Water charges remain aligned with budget projections, while wastewater charges fell below current projections because of low usage during the first quarter.

Utility taxes declined year-over-year primarily due to reduced natural gas prices. Other charges for services were lower due to ambulance fees, specifically payments withheld by the state. This was due to the recertification process requiring all public providers to undergo annual inspections to maintain licenses as authorized transportation providers. Those payments will be collected subsequent to the recertification process.

**Expenditures**

Expenditures across all funds total \$99.69 million. Total expenditures are 6.5% below current projections and 11.5% higher than in Q1 2023. Spending in the General Fund is aligned with projections through the first quarter. However, expenses in the utility funds are higher than anticipated. Spending is 2% higher than projected in the Water Utilities Fund and roughly 10% higher than projected in the Electric Utility Fund.

**Expenditures by Fund Category**

	2024 Budget	YTD Actual	% of Total Budget	YTD Projection	% of YTD Projection	2023 YTD Actual	Variance to 2023
<b>Maintenance &amp; Operating</b>	\$429.31	\$85.53	19.9%	\$82.15	104.1%	\$78.02	9.6%
<b>Capital &amp; Debt Service</b>	\$143.16	\$5.92	4.1%	\$16.14	36.6%	\$3.64	62.3%
<b>Special Funds</b>	\$41.27	\$8.24	20.0%	\$8.36	98.6%	\$7.73	6.7%

\$ in millions

Below are some key factors tied to Q1 expenditure performance.

### **Personnel Costs**

- Regular salaries and wages at \$24.38 million are 4.7% higher than they were in Q1 2023 due to filling open positions during the quarter and retirement benefit payments.
- Overtime pay rose significantly over the prior year, up 31.5% from 2023, although the amount remains 23% below projections. The increase was seen mainly in public safety due to covering staffing vacancies in the Fire Department and various assignments across the Police Department, including billable overtime. Public Works also incurred more overtime than last year but remains well below budget.
- Insurance benefits and claims for healthcare and other related coverages are 40.9% higher than in 2023 due to two major medical claims in the PPO and HSA plans, as well as a significant legal settlement.

### **Purchased Services**

- Architect and engineering services are well below budget, totaling just \$632,717; this represents 4.9% of the total budget in this area. However, actuals increased over 705% from 2023 primarily due to design work for significant capital projects. These include the Washington Street Bridge, Columbia Street, and the South Plant RAS/Grit Improvement.
- Operational services total \$970,138, which is just 9% of the total operational services budget and only 66.9% of projections. This is mainly due to the mild winter and savings in winter operations costs, a trend seen over the last few years.
- Software and hardware maintenance at \$3.01 million is 34% of the budget and 36% higher than the 2023 year-to-date actuals. This is due to the timing of payments for various software agreements being completed earlier than usual.

### **Purchased Items**

- Purchased electricity costs totaled \$26.02M through Q1. This is 14.6% higher than projected and represents an increase of nearly 7% from 2023. Overall energy cost to the City was significantly lower than budgeted in Q1 2023 as compared to Q1 2024. For example, March 2023 power costs were over 15% lower than budget estimates provided by IMEA to the City due to favorable energy markets to the agency. Additionally, the INEOS campus stopped generating electricity to the City at the end of 2023, increasing the City's 2024 consumption from IMEA.
- Purchased water costs declined 12.5% from 2023 to \$5.5 million due to fewer water main breaks occurring since the start of the year.
- Operating supplies have decreased by 5% compared to the first quarter of 2023. Spending through Q1 for warehouse supplies for both the Water and Electric Utilities has significantly decreased year-over-year. Spending in the Water warehouse material space is down nearly 63% while spending for warehouse materials for the Electric Utility has decreased by roughly 27%.

### **Capital Projects**

Spending on capital outlay through the first quarter is 20.4% higher than the prior year. Much of that difference is in vehicle and equipment purchases; however, several major capital projects are underway much earlier in the year and with fewer delays as compared to previous years.

The City is scheduled to borrow \$20 million to reimburse Water Utility capital costs for improvements related to replacing underground water mains at various locations, rehabilitating water distribution infrastructure, and constructing the UV disinfectant system at Springbrook. That bond sale is scheduled for the week of May 6.

### **Actions to Monitor**

While a strong local economy supports the City budget, proposed federal, state, and regional economic actions also remain important considerations when assessing Naperville's future financial outlook.

Part of the state's 2025 budget proposal includes permanently eliminating the 1% tax charged on most food items for home consumption, more commonly called a grocery tax. A portion of state sales tax revenues, including grocery tax dollars, are passed through to local governments. As part of the state's COVID-relief measures, this tax was suspended from July 2022 to June 2023, and the state reimbursed local governments for lost revenue during that time.

With no alternate revenue stream currently proposed by the state, the permanent elimination of the grocery tax after July 1, 2024, would reduce the City's revenue by a staff-estimated \$5 million per year. This considers big-box and warehouse stores that sell food items as part of their merchandise.

Part of staff's ongoing efforts during and after the pandemic include the concept of financial flexibility. This involves conservative revenue estimation during budget development and the resulting ability to respond to impacts like the one noted above. Staff is analyzing what alternative revenue sources or adjustments could be presented to the City Council as part of the budget process should the tax elimination pass.

### **Summary**

Overall, revenue growth has slowed compared to recent years, which is not unexpected considering the unique circumstances of 2020 through 2023. While there are no current severe economic conditions evident that may lead to a downturn, staff remains cognizant of impacts and will monitor activities to ensure alignment with the budget. Staff continues to monitor actions at the state level that may have a long-term impact on City revenue.

While minor cost inflation and supply chain issues persist, particularly in the utilities, expenses remain managed according to the budget plan. Staff expects operating budgets to remain in line with expectations, while capital budgets will likely be under budget for 2024 but higher than previous years as major project work progresses.

A detailed Q1 financial report is included as an attachment.

### **FISCAL IMPACT:**

N/A