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Attachments: 1. 2018 Q1 Financial Report, 2. 1st Quarter Financial Report - One Page.pdf

Date	Ver.	Action By	Action	Result
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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the 2018 1st Quarter Financial Report

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

Attached is the 2018 1st Quarter Financial Report. The information contained within will be presented by staff during the May 15 City Council meeting; providing Council an opportunity for discussion related to the information contained in the reports.

Below are highlights from the first quarter, more detailed information can be found in the attached documents.

DISCUSSION:

Overall Highlights

Property Taxes

Final assessments for property taxes were provided to the City in March and give a full view of property taxes for the upcoming year. The City experienced a 4.3% growth rate, with the total Equalized Assessed Valuation (EAV) increasing to \$6.95 billion. Of that increase, 27% was directly attributable to new growth within the City.

This growth, combined with the City's tax levy of \$46.9 million, produced a property tax rate 2.7% lower than 2017. The expected final property tax rate is 0.6815. The average homeowner has seen

their property value increase to \$393,000, which translates to a \$818 property tax bill, an increase of \$8, for City services.

Salaries, Benefits and Healthcare

A significant portion of the City's expenses are personnel related, with 31.5% of the City's \$442.3 million budget dedicated to salaries and benefits. Through the first quarter of 2018, the City has spent \$32.88 million on salaries and benefits, which is 23.6% of the annual budget. This figure is trending 1.8% lower than 2017.

Currently, Regular Pay is at \$23.8 million, which is 2.9% lower than 2017. Overtime Pay is trending 14.2% higher than 2017 figures, with \$2.16 million spent in the first quarter. This is mainly attributable to winter operations, which will be described in detail in the Maintenance and Operating Funds expenses section below.

Additionally, healthcare costs, both administrative fees and claims, are trending flat compared to 2017 and are trending positively to 2018 budget projections. Due to timing of claim payments the current financials indicate that healthcare (PPO, HMO, and dental) costs are down 5.8% and pharmaceutical costs are down 15.7% compared to 2017. However, total claim submissions are flat and the divergence between claims and payments will be corrected in the 2nd quarter financials reports.

Maintenance and Operating Funds

General Fund Revenues

- ***State Income Tax:*** First quarter State Income Tax revenue is down 19% compared to last year. However, this discrepancy is attributable to a timing issue. Last year, the state expedited the distribution process through electronic payments. In 2017, the City received two payments for January and February disbursements in March, resulting in an inflated first quarter total. Through March, the City collected \$3.42 million in state income tax revenue.
- ***Permit Fees:*** In the first quarter, TED has reported that permit fees collected are down by \$63,000, or 6%, compared to 2017. A total of \$962,000 was collected in the first quarter.
- ***Retail Sales Tax:*** Approximately \$8.89 million was received in state retail sales tax, finishing third in the State behind the City of Chicago and DuPage County for the first quarter. This was an increase of 2.1% compared to the first quarter of 2017 and in line with 2018 budgetary projections.
- ***Real Estate Transfer Tax:*** Through the first quarter, Real Estate Transfer Tax revenues are down, with 13.7% of the budget collected. However, part of this comparative underperformance is attributable to large property sales in the first quarter of 2017, including the Main Street Promenade. When looking at residential sales, there were 491 sales in the first quarter of 2018, which is higher than the 5-year average of 451. Additionally, from 2017 to 2018 the average home price through the first quarter has increased from \$372,000 to \$396,000.
- ***Utility Taxes:*** The Utility Tax revenues for electric, natural gas and water taxes are close to 2018 budget projections, with 25.1% received through the first quarter. However, Telecommunications Tax revenues are seeing a \$100,000 decrease from 2017. The \$1 million received in the first quarter of 2018 is 20.5% of budget. Although revenue is declining, the rate increase from 5% to 6% enacted by City Council last year means the City anticipates increased revenues starting in October 2018.

Water Fund Revenues

Increased water consumption corresponded with increased revenues in the Water Fund. Charges for water and wastewater services were up \$1.61 million through the first quarter. This 14% increase is also tied to the rate changes approved during the 2018 budget discussions. Charges for water were up \$857,000 and wastewater charges increased \$757,000. The Water Fund was anticipated to increase 6% in revenues based on the rate model structure provided last year.

Electric Fund Revenues

The Electric Utility revenues for the first quarter total \$41.8 million. This is 24.5% of the 2018 budget and comparable to 2017 revenues of \$39.1 million. The majority of the utility's revenues result from electricity charges, where the actual revenues are \$2 million higher than the prior year. A significant portion of that increase, \$720,000, is due to the Purchased Power Adjustment (PPA). In addition to the charges for service, the first quarter installation fees exceed the annual budget by \$725,000, resulting from the payment for the Edward Hospital substation capacity expansion.

General Fund Expenses

Winter Operations: One of the major financial pressures experienced by the City in the first quarter of 2018 are costs associated with winter operations. When comparing the winter seasons of 2017-18 and 2016-17, there was an increase of 17 events from the former to the latter. In 2016-17, when there was 24.9 inches of recorded snow, the City had 21 winter events. Through March of 2018, there was 37.3 inches of accumulation over 38 winter events. The City used over 14,000 tons of salt in 2017-18, an increase of 5,500 tons over the previous winter. Contractor costs exceeded the budget by \$100,000, and more than \$475,000 in overtime expenditures have been incurred due to the snowier winter, which included a significant snow event in February 2018.

Water Fund Expenses

The City has experienced a slight increase in the overall cost of purchased water of approximately \$394,000. This is partially due to an 8 cent increase to the DuPage Water Commission wholesale rate. Additionally, the City also consumed more water, with the three-month average increasing nearly 21 million gallons, or 5.7%, compared to last year.

Electric Fund Expenses

Electric Utility expenditures for the first quarter total \$33.5 million, which equates to 20.7% of the budget and is comparable to the \$32.9 million spent in 2017. Purchased power, which represents 80% of total expenditures, is in line with prior year spending at \$26.8 million through the first quarter. Other significant maintenance and operating fund expense items include:

- *Water Fund Capital Outlay:* A \$393,000 increase in capital outlay expenses is due to the purchase of a new vactor truck for \$423,000. The truck was budgeted and ordered in 2017, but delivery of the vehicle delayed payment until February 2018. The truck arrived approximately \$7,000 under budget.
- *Fuel Costs:* The cost of fuel has increased significantly from 2017 to 2018. The three-month average for gasoline and diesel are \$1.7471 and \$2.0026, respectively. This represents increases of 7% and 20% over 2017 prices.
- *Refuse and Recycling:* This area has seen a 1.75% increase in 2018 actuals due to the annual increase in this fee. The fee increase, which is effective May 1 each year, will bring the total monthly cost from \$12.71 per household per month to \$12.89 per household per month. This is a pass-through cost and therefore a corresponding increase in revenues will off-set this

expense.

- *Temporary Pay*: There was an increase in temporary pay of \$100,000 in the Finance Department during the first quarter of 2018. This was driven by the hiring of field workers for the City's special census. Field work was completed at the beginning of April and the City is expected to have certified population figures in July. As the population figures are certified, staff will provide the projected financial impact of the incremental population related to income tax and motor fuel tax.

Special Funds

Revenues

The primary revenue source for three of the major special funds - Library Fund (94.7%), Naper Settlement Fund (71.7%) and SSA #26 - Downtown Maintenance Fund (44.5%) - is property taxes. The first disbursement of property taxes will occur in the June and the revenue will be reflected in the second quarter report for 2018.

Food and beverage tax receipts continue to overperform relative to prior year actuals in the first quarter. The City has receipt of \$1.06 million, a 3.4% increase compared to 2017.

In December of 2017, the City of Aurora joined the Naperville Emergency System Telephone Board (ETSB). During the first quarter of 2018, the City started receiving incremental disbursements from the state for the combined ETSB.

Expenses

All expenditures through the Special Funds are aligning with prior year actuals and the 2018 projected budget.

Capital and Debt Service Funds

Revenues

One of the City's leading indicators for economic health is the performance of the Home Rule Sales Tax (HRST). The HRST is utilized for both debt reduction and capital project funding. Through the first quarter, the City collected \$2.47 million in revenue, which was a 2.8% increase from the \$2.41 million of revenue collected in the first quarter of 2017. The City did increase the HRST rate from 0.50% to 0.75% in 2018 and is expected to start receiving incremental revenues in October of 2018.

Two of the major revenue sources for the City's Maintenance Improvement Program (MIP) are the State Motor Fuel Tax (MFT) and the City's local gas tax. Through the first quarter the MFT is tracking in line with budget projections with \$1.2 million in revenue received from a budget of \$3.6 million. However, the local gas tax is trending 6% below last year at approximately \$614,000 in revenues. This is driven primarily by a reduction in the number of gallons sold in Naperville. There have been 15 million gallons sold through the first quarter, a one million gallon reduction compared to 2017.

The Phosphorus Fund continues to perform near expectations, with \$130,608 of revenue generated through the first quarter. The City projected the monthly surcharge to result in approximately \$575,000 of revenue in 2018. These funds will continue to be set aside for future capital work related to upgrades of the City's wastewater facilities.

The Water Street TIF District has started to see increases in the total EAV in the district. The valuation rose 81.3% from \$2.6 million to \$4.7 million, which outpaced projections by 10.5%. This EAV growth combined with property tax rates is expected to generate around \$250,000 in tax increment that will be used to pay down debt for the public improvements in the Water Street District.

Expenses

One of the expense highlights for the first quarter of 2018 is the bid pricing for the roadway Maintenance Improvement Program (MIP) contracts. The MIP includes various projects such as street resurfacing, crackfilling, and curb and gutter work throughout the City. The City anticipates resurfacing 11.52 miles of various local roadways in 2018, and the bids have come in lower than engineer estimates. The City anticipates saving \$1.89 million, or around 18% of the budget. These savings may be used to reduce projected 2018 borrowing or to bring forward capital projects previously deferred.

Other significant capital expense items include:

- *Bond Fund expenses:* The primary driver of the first quarter increase is the Fire Station Alerting System (FSAS) for the Fire Department. The Fire Department has spent \$580,000 on the FSAS during the first quarter, which is in line with projections for the total \$1.06 million project.
- *Capital Projects Fund:* The first quarter reflects the expense of \$623,000 for a new fire engine. In 2017, the Fire Department entered into an agreement with the Naperville Fire Protection District (NFPD) to purchase a new fire engine, and then to be fully reimbursed by the NFPD at 100% of the cost. The City has since been fully reimbursed by the NFPD, which will be reflected in the second quarter financial report.

Land Purchases: The Capital Projects Fund is also trending slightly high compared to 2017 due to the purchase of two land parcels for \$327,000 related to the North Aurora Road Underpass Capital Improvement Program (CIP) project.

SUMMARY

Overall, the City performed close to expectations in the first quarter for both revenues and expenses. Aside from several timing issues for both revenues and expenses, there were very few unexpected variations from both the budget and prior year history.

- Total revenues came in at \$89.9 million, which is 19.9% of budget. This was a less than 1% deviation from 2017 revenues and only slightly below projections.
- Citywide expenses came in at \$84.0 million, which is 19.0% of budget. Expenses were around 3% lower than 2017 and marginally below budget projections.

In the second quarter financial report, staff will provide an update on fund balances, pensions and debt. Throughout the second quarter staff will continue to monitor any trends in revenue and expenses and provide Council updates on the overall financial status of the City.

FISCAL IMPACT:

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