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**Title:** Receive the preliminary 2023 year-end financial report (Item 1 of 2)

**Sponsors:**

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**Attachments:** 1. 2023 - Budget Report through Dec 31, 2023

Date	Ver.	Action By	Action	Result
2/20/2024	1	City Council	received	

**CITY COUNCIL AGENDA ITEM**

**ACTION REQUESTED:**

Receive the preliminary 2023 year-end financial report (Item 1 of 2)

**DEPARTMENT:** Finance Department

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

**BOARD/COMMISSION REVIEW:**

N/A

**BACKGROUND:**

This first financial report of the year provides a preliminary, unaudited review of the City’s 2023 budget. The report provides a high-level overview of the budget and details areas where revenues and expenses outperformed or did not meet expectations.

The report summarizes actual revenues and expenditures recorded through December 31, 2023. These are preliminary, unaudited numbers and will change as the City continues to pay outstanding 2023 invoices and finalizes year-end accounting entries in preparation for the annual financial audit beginning next month.

**DISCUSSION:**

In 2023, the City continued to successfully navigate challenging economic conditions that were defined by high inflation, continued supply chain delays, and a tight labor market. Some of these challenges started to ease by mid-year as inflation had moderated from historic highs seen in 2022. Fortunately, continued strength in consumer spending and low unemployment contributed to strong general revenues again this year, which have more than offset some of the rising costs seen over the past two years.

**Summary by Fund**

Across all funds, total revenues exceeded total expenditures by \$20.6 million. Two of the City’s three primary operating funds - the General Fund and Water Utility Fund - realized revenues above expenses. For the General Fund, this results in an estimated \$13 million increase in cash balance, bringing the total balance to \$64 million, or 45% of expenditures.

The Electric Utility Fund, however, saw revenues come in well below projections and ended the year with expenses exceeding revenues by \$9.7 million, resulting in a declining cash balance.

The Water Capital Fund finished the year with a negative cash balance that will be resolved through an early 2023 bond issuance to reimburse capital project expenses. All other funds performed in line with expectations.

	<b>Beginning Balance</b>	<b>Revenues</b>	<b>Expenses</b>	<b>Margin</b>	<b>Ending Balance</b>
<b>Maintenance &amp; Operating</b>					
Commuter Parking Fund	2.42	1.19	1.13	0.05	2.47
Electric Utility Fund	28.47	145.39	155.11	(9.72)	18.75
General Fund	50.31	154.40	140.51	13.90	64.21
Self Insurance Fund	7.02	28.11	24.61	3.50	10.52
Solid Waste Fund	0.03	7.47	7.55	(0.08)	(0.05)
Water Utilities Fund	2.44	75.28	74.00	1.28	3.72
<b>Capital &amp; Debt Service</b>					
Bond Fund	-	-	-	-	-
Capital Projects Fund	30.05	21.78	13.62	8.16	38.21
Debt Service Fund	5.19	11.29	11.72	(0.43)	4.76
Downtown Parking Fund	8.16	2.53	1.06	1.47	9.63
Motor Fuel Tax Fund	13.33	7.59	7.99	(0.40)	12.93
Phosphorus Fund	20.41	2.63	0.64	1.99	22.40
Road and Bridge Fund	2.16	2.92	1.38	1.54	3.70
SSA Funds	0.11	0.29	0.12	0.17	0.28
Water Street TIF Fund	0.04	0.65	0.64	0.01	0.05
Water Capital Fund	3.09	17.55	24.50	(6.95)	(3.86)
<b>Special Funds</b>					
American Rescue Fund	13.31	13.31	13.31	-	-
CDBG Fund	0.47	1.03	0.96	0.07	0.54
Drug Forfeiture Funds	1.28	0.22	0.19	0.03	1.31
E911/ETSB Funds	1.45	6.61	5.54	1.07	2.52
Food and Beverage Fund	1.29	6.25	6.05	0.20	1.49
Foreign Fire Tax Fund	-	0.40	0.25	0.15	0.15
Library Funds	2.70	18.12	17.43	0.69	3.39
Naper Settlement Fund	0.31	4.65	4.35	0.30	0.61

Renewable Energy Fund	0.57	0.34	0.61	(0.27)	0.30
Downtown Maint. Fund	1.98	3.08	2.43	0.65	2.63
Test Track Fund	0.03	0.04	0.05	(0.01)	0.02
<b>Grand Total</b>	<b>\$196.62</b>	<b>\$533.12</b>	<b>\$515.75</b>	<b>\$17.37</b>	<b>\$200.68</b>

\$ in millions

**Revenues by Fund**

Below is a comparison, by fund, of budgeted versus actual revenue collected in 2023.

	2023 Budget (\$)	2023 Actual (\$)	% of Budget
<b>Maintenance &amp; Operating</b>			
Commuter Parking Fund	1.10	1.19	108.1
Electric Utility Fund	171.52	145.39	84.8
General Fund	149.68	154.40	103.2
Self Insurance Fund	29.97	28.11	93.8
Solid Waste Fund	7.69	7.47	97.1
Water Utilities Fund	75.10	75.27	100.2
<b>Capital &amp; Debt Service</b>			
Bond Fund	14.46	-	-
Capital Projects Fund	34.82	21.78	62.5
Debt Service Fund	10.64	11.29	106.1
Downtown Parking Fund	1.86	2.53	136.2
Motor Fuel Tax Fund	6.65	7.59	114.2
Phosphorus Fund	1.62	2.63	161.7
Road and Bridge Fund	2.85	2.92	102.3
SSA Funds	0.29	0.29	100.0
Water Street TIF Fund	0.62	0.65	105.3
Water Capital Fund	42.50	17.55	41.3
<b>Special Funds</b>			
American Rescue Fund	-	13.31	-
Comm. Dev. Block Grant Fund	0.54	1.03	191.7
Drug Forfeiture Funds	0.28	0.22	79.9
E911/ETSB Funds	6.10	6.61	108.4
Food and Beverage Fund	5.91	6.25	105.8
Foreign Fire Tax Fund	0.40	0.40	101.3
Library Funds	16.70	18.12	108.5
Naper Settlement Fund	4.54	4.65	102.4
Renewable Energy Fund	0.27	0.34	123.2
SSA #33 - Downtown Maint. Fund	2.97	3.08	103.8
Test Track Fund	0.03	0.04	119.9

<b>Grand Total</b>	<b>\$589.10</b>	<b>\$533.12</b>	<b>90.5%</b>
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\$ in millions

## Revenue Summary by Category

### State Shared Revenues

- **State income tax** of \$23.9 million exceeded budget estimates by 8.7% due to strong corporate profits and low unemployment.
- **State sales tax** of \$47.1 million exceeded budget estimates by 1.9% as a result of strong consumer spending and higher prices.
- **State motor fuel taxes** of \$6.8 million exceeded budget estimates by 1.7% due to strength in the inflation-adjusted Transportation Renewal Fund receipts. The flat-rate MFT was lower than expected due to declining fuel consumption.

### Local Taxes

- **Food and beverage taxes** of \$7.1 million exceeded budget projections by 4.7%. Downtown food and beverage tax was particularly strong and exceeded projections by 13%
- **Hotel/motel tax** of \$3.7 million exceeded budget projections by 2.2% and was 15% higher than in 2022. While gross revenue was higher, net revenue came in below budget as higher receipts resulted in higher rebates to the four major hotels with existing development incentive agreements.
- **Local gas tax** of \$2.4 million fell short of budget estimates by 1.1%. Declining fuel consumption is likely to result in a continued downward trend in this revenue.
- **Real estate transfer tax** of \$4.0 million fell short of budget estimates by 26.5% as a result of slowing sales in a high interest rate environment. Although revenue was down all year, the declines were greater in first half of the year and improved in the second half. Commercial sales were particularly weak.

### Service Charges

- **Electric charges** of \$139.6 million fell short of budget projections by 12.7% and were 2.4% less than 2022 revenue. This decline is primarily due to energy conservation efforts leading to lower electricity consumption.
- **Water charges** of \$49.1 million exceeded budget estimates by 4.3% largely due to higher water sales during the hot, dry summer months.
- **Wastewater charges** of \$27.1 million fell short of budget projection by 8%. The revenue miss is the result of a known error in budget assumptions. Revenue was 5.6% higher than in 2022.
- **Ambulance fees** of \$8.7 million exceeded budget estimates by 24.6% due to increases in billed activity and overly conservative budgeting. New revenue from the CART program was not a factor in 2023 revenue outperformance.

### Other Revenues

- **Interest and investment income** rebounded after experiencing negative returns in 2022. Between bank interest and investment gains, 2023 revenue totaled \$10.5 million.
- **Commuter parking revenue** of \$1.0 million was in line with budget estimates. Daily parking fees of \$682,000 were 52% higher than expected; however, that was offset by a decline in permit revenue. Staff will closely monitor revenue trends now that all daily fee parking is implemented.
- **Building permit and related revenues** of \$2.3 million were 7.8% higher than budget

estimates. New single-family home and commercial permits were down, while new multi-unit residential permits were up. Alterations and other small permit activities were relatively consistent year-over-year.

**Expenditures by Fund**

Below is a comparison, by fund, of budgeted versus actual expenditures in 2023. Funds that exceed their allowable budget may be amended later as a part of the year-end accounting process.

<b>2023 Budget (\$)</b>	<b>2023 Actual (\$)</b>	<b>% of Budget</b>	
<b>Maintenance &amp; Operating</b>			
Commuter Parking Fund	1.93	1.13	58.8
Electric Utility Fund	171.47	155.11	90.5
General Fund	146.48	140.51	95.9
Self Insurance Fund	27.42	24.61	89.7
Solid Waste Fund	7.77	7.55	97.2
Water Utilities Fund	75.10	74.0	98.5
<b>Capital &amp; Debt Service</b>			
Bond Fund	-	-	-
Capital Projects Fund	57.40	13.62	23.7
Debt Service Fund	11.72	11.72	100.0
Downtown Parking Fund	1.33	1.06	79.8
Motor Fuel Tax Fund	7.60	7.99	105.1
Phosphorus Fund	5.06	0.64	12.7
Road and Bridge Fund	4.01	1.38	34.4
SSA Funds	0.12	0.12	100.0
Water Street TIF Fund	0.62	0.64	102.5
Water Capital Fund	47.89	24.50	51.2
<b>Special Funds</b>			
American Rescue Fund	-	13.31	-
Comm. Dev. Block Grant Fund	0.54	0.96	178.6
Drug Forfeiture Funds	0.68	0.19	28.3
E911/ETSB Funds	6.10	5.54	90.8
Food and Beverage Fund	5.86	6.05	103.4
Foreign Fire Tax Fund	0.39	0.25	63.8
Library Funds	16.93	17.43	102.9
Naper Settlement Fund	4.54	4.35	95.9
Renewable Energy Fund	0.62	0.61	99.2
SSA #33 - Downtown Maint. Fund	2.82	2.43	85.9
Test Track Fund	0.07	0.05	69.4
<b>Grand Total</b>	<b>\$604.48</b>	<b>\$515.75</b>	<b>85.3%</b>

## Expenditure Summary by Category

### **Salaries, Wages, and Benefits**

Across all funds, salaries and wages were in line with the budget at \$114.6 million. Regular pay of \$105.2 million ended the year 0.6% over budget but was offset by lower overtime pay.

- **General Fund** salaries and wages were 0.5% under budget.
- **Electric Fund** salaries and wages were 4.7% over budget. Regular pay and overtime were in line with the budget; however, anticipated vacancies factored into the budget were less than expected.
- **Water Fund** salaries and wages were 4.6% over budget. Regular pay and overtime were both over budget. This was partly attributable to several retirement/separation payouts, employees being promoted into positions at salaries that exceeded the budget, and anticipated vacancies factored into the budget were less than expected.

Benefits associated with payroll, including pension contributions, payroll taxes, and employer insurance contributions, were all in line with the budget.

- **Pension benefits** of \$24.5 million were 1% more than budgeted. Fire and police pension contributions exceeded actuarially required amounts due to higher food and beverage tax contributions, and IMRF contributions were higher than expected due to several retirement payouts.
- **Employer insurance contributions** for health, dental, workers' compensation, and life insurance benefits were about 1% under budget at \$17.7 million.

### **Healthcare**

The City's healthcare and related insurance plans continued to perform well in 2023, and the City continues to see healthcare expenses below national averages.

- **Healthcare claims** in the HMO, PPO and HSA plans totaled \$12.4 million, which was 3.4% under budget. In addition, administration costs for the health plans totaled \$2.4 million, which was 11% under budget.
- **Dental insurance** claims and administrative fees of \$1.1 million ended the year 1.5% under budget.
- **Prescription drug program** costs totaled \$2.8 million, which is 14% under budget.

### **Purchased Items**

This expenditure category includes all items purchased from third-party vendors, including purchased electricity and water.

- **Purchased electricity** from the Illinois Municipal Electric Agency totaled \$104.1 million, which was 12% less than budgeted. This aligns with electric charges revenue being below budget.
- **Purchased water** from the DuPage Water Commission totaled \$29.0 million, 2% less than budgeted.
- **Other purchased items** totaling \$25.4 million were under budget by almost 9%. Several categories, such as fuel, salt and technology hardware, ended the year well under budget, due in part to the easing of inflation.

### **Purchased Services**

Expenses related to services provided by third parties ended the year 31% under budget at \$41.5 million.

- **Architect and engineering services** related to deferred capital projects were the primary reason for spending far less than expected. Total expenses of \$3.9 million fell short of budget by 75%.
- Several other categories within the purchased services category fell short of budget, including **operational services, building and grounds maintenance, and equipment maintenance**. Staff anticipated continued cost escalation in several areas that were not as severe as anticipated. There were also areas where services were used far less than expected, such as contracted snow removal and mowing services.

### **Capital Outlay**

Expenditures related to the capital outlay totaled \$72.2 million, which is 60% of the amount budgeted.

- **Transportation-related projects** experienced significant delays in 2023, as was discussed throughout the year. This resulted in only 47% of the capital outlay budget being spent in this area. Significant factors included delays on complex projects, like the North Aurora Road underpass projects and the Washington St. Bridge/Streetscape.
- While the **Water Utilities** only spent 55% of their total capital outlay budget, this represents impressive progress in the City's efforts to reinvest in water and wastewater infrastructure. The Utility spent nearly \$25 million in 2023, which is more than double the amount of investment being made just three years ago.
- The **Electric Utility** spent 88%, or \$13.6 million, of its capital budget in 2023. The Utility made mid-year adjustments to its work plan once it became apparent that declining revenue would not support the full capital budget for 2023.

### **Expenditure of American Rescue Plan Funds**

On June 20, 2023, the City Council directed staff to obligate the City's allocation of Coronavirus Local Fiscal Recovery Funds (CLFRF), totaling \$13,308,689, to previously approved capital projects and report the expenditure of those funds according to U.S. Department of Treasury guidelines.

Staff identified seven capital projects and expensed the CLFRF accordingly. All seven projects were identified as permissible uses under the U.S. Dept. of Treasury rule to replace lost public sector revenue in support of providing government services. The seven projects and the funding allocations are as follows:

**1. 2023 Street Maintenance Program - \$7,167,558.20**

This project supported the annual capital maintenance of the City's streets and sidewalks, including patching, resurfacing and reconstruction.

**2. Municipal Vehicle Replacements - \$2,714,566.67**

This project supported the replacement of front-line municipal vehicles essential to the delivery of government services, including police cars, a fire engine, and a mobile command vehicle.

**3. Public Building Roof Replacements - \$1,101,525.00**

This project supported the capital maintenance and replacement of roofs on municipal facilities, including the Public Works Service Center and a fire station.

**4. Public Parking Garage Maintenance - 1,024,630.80**

This project supported the capital maintenance of the City's downtown public parking garages, including structural concrete, weatherproofing and floor repairs.

**5. Storm Sewer Maintenance - \$724,236.90**

This project supports the capital maintenance of the City’s underground storm sewer system, including the installation of cured-in-place pipe linings that extend the life of the sewer system.

**6. Firefighter Protective Gear Replacement - \$445,069.00**

This project supports the replacement of protective turnout gear worn by firefighters during emergency response activities. The turnout gear was replaced to limit potential exposure to PFAS used in the manufacture of older garments.

**7. Public Safety CAD-RMS Replacement - \$131,102.43**

This project supports the replacement of the City’s computer-aided dispatch and records management system (CAD-RMS), including professional consulting fees and the replacement of computer servers.

All project expenditures noted above were budgeted in the Capital Projects Fund or the Road and Bridge Fund for 2023; however, the actual expenditures totaling \$13,308,689 were recorded in the American Rescue Fund.

Because the City maintains budgetary control at the fund level, it is necessary to transfer the budget amounts associated with these projects through a budget amendment. That amendment reduces the budgets for the Capital Projects Fund by \$9,540,813 and the Road and Bridge Fund by \$2,177,065, and increases the budget for the American Rescue Fund by \$13,308,689.

The net increase to the 2023 budget is \$1,590,811. That amount represents the 2022 street resurfacing work that was delayed until 2023 due to the quarry workers' strike. Although the project funding remained available for 2023, the dollars were not included in the 2023 budget as it was unclear whether work would be completed.

The amended budget amounts are detailed below.

	<b>2023 Budget</b>	<b>Increase / (Decrease)</b>	<b>Amended Budget</b>
Capital Projects Fund	\$57,404,327	\$(9,540,813)	\$47,863,514
Road & Bridge Fund	\$4,014,610	\$(2,177,065)	\$1,837,545
American Rescue Fund	\$0	\$13,308,689	\$13,308,689

**FISCAL IMPACT:**

The recommended budget amendment has no negative impact on the City’s finances. The expenditure of \$13.3 million in the American Rescue Fund is fully supported by the grant revenue provided by the federal government in 2021. Utilizing these grant funds in place of recurring revenue sources results in substantially higher year-end balances in the Capital Projects and Road and Bridge funds. The net budget increase is accommodated by the cash balance that was retained during the 2022 quarry strike that delayed work.

Staff recommends approval of the budget amendment.