Legislation Details (With Text)

File #:	22-0882	**Version:** 1			
Type:	Report		**Status:**	Filed	
File created:	7/27/2022		**In control:**	City Council	
On agenda:	8/16/2022		**Final action:**	8/16/2022	
Title:	Receive the August 2022 Financial Report				
Sponsors:					
Indexes:					
Code sections:					
Attachments:	1. 2022 P6 Budget Report				

Date	Ver.	Action By	Action	Result
8/16/2022	1	City Council	received	

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:
Receive the August 2022 Financial Report

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:
N/A

BACKGROUND:
Throughout the COVID-19 pandemic, City staff has provided timely financial information to the City Council through regular reports focused on Naperville's financial position and the local economy. Over time, these reports have evolved to focus on broader discussions around long-term trends that may impact the City's financial position moving forward.

This month's report reviews the overall performance of the City's budget through the first six months of 2022 and introduces trends that will impact 2023 budget development.

DISCUSSION:
Overall Financial Performance
Despite concerns over inflation, the City's overall budget remains in line with expectations through the first six months of 2022 and continues to show positive trends in revenues and expenses.

Revenues
Across all funds, revenues through the first six months total $239.46 million, which is just below staff's projection of $246.32 million. However, this exceeds 2021 revenue by 7.6%.

Revenues	2022 Budget	2022 YTD Projection	2022 YTD Actual	Variance
Maint. & Operating Funds	416.22	191.23	199.32	4.2%
Capital & Debt Service Funds	100.19	33.77	22.18	-34.3%
Special Funds	41.47	21.32	17.96	-15.8%
Total	**557.88**	**246.32**	**239.46**	**-2.8%**
***$ in millions**				

Revenues in the Maintenance & Operating Funds continue to be strong, exceeding projections by 4.2%. General Fund revenues drive the outperformance across these funds. Sources of strength continue to be sales tax, state income tax, real estate transfer tax, and utility taxes. Revenue in both the Electric and Water utility funds is lower than expected through the first six months. The decline in Electric revenue is largely driven by the purchased power adjustment (PPA), which was budgeted as a positive revenue but has been a credit for most of the year. Water revenue is also lower than projected. While water consumption is up, revenue is essentially flat due to timing around usage versus revenues received through customer billing.

At first glance, Capital and Debt Service Funds revenue is 34.3% below expectations; however, that shortfall is almost entirely attributable to grants and other government contributions on capital projects that have yet to be received. Most recurring revenues in this category, such as home rule sales tax, are performing at or above expectations.

Similarly, revenue in the Special Funds is 15.8% lower than expected, which is solely attributable to how the City accounts for receipt of the American Rescue Plan Act (ARPA) grant funding. For now, these funds remain on the City's balance sheet in a separate fund. Other revenues are performing at or above expectations, with food and beverage taxes particularly strong.

Expenditures
Across all funds, expenditures through the first six months total $197.08 million, which is 11.6% below expectations through June. However, this exceeds 2021 expenses by 5.1%.

Expenses	2022 Budget	2022 YTD Projection	2022 YTD Actual	Variance
Maint. & Operating Funds	402.34	178.81	169.82	-5.0%
Capital & Debt Service Funds	102.72	28.05	12.78	-54.4%
Special Funds	35.52	16.02	14.48	-9.6%
Total	**540.58**	**222.88**	**197.08**	**-11.6%**
***$ in millions**				

Expenses across the Maintenance & Operating Funds remain 5% below projections through June. Salaries and wages are currently 5% under budget, which can be attributed to staff vacancies and lag time in filling newly approved positions for 2022. Benefits and related expenses are in line with the budget. While dental and prescription drug claims are slightly over budget, that is more than offset by HMO and PPO claims under budget by 10% and 20%, respectively.

Both purchased items and purchased services are in line with the budget through June. While expenses remain in line with the budget overall, several areas are acutely impacted by inflation or other factors driving higher costs.

- Fuel costs have risen sharply and are 26% higher than projected through June.
- Natural gas costs exceed projections through June by more than 60%.
- Service fees related to credit card transactions are 20% higher than anticipated due to increased demand for electronic payments.

Spending in the Capital and Debt Service Funds is more than 50% below expectations, which are based on historical spending patterns. This is largely attributable to delays in major capital projects, which will be highlighted later in this report.

Special Funds are also experiencing lower-than-expected spending. Library and Naper Settlement funds make up 60% of all expenses in this category. Spending across the Library funds is 10% lower than projected and Naper Settlement is 4% lower. Similar to the Maintenance and Operating Funds, lower-than-expected personnel costs are largely responsible for that trend.

Economic Indicators

State-Collected Revenues

At the outset of the pandemic, staff identified various economically sensitive revenues to monitor as indicators of economic health. With recent discussions of an economic slowdown, staff is presenting the most recent data on these revenues.

YTD State-Collected Revenues through June

Revenue	Projection ($)	Actual ($)	Difference ($)	Difference (%)
Sales Tax	19,957,860	21,610,242	1,652,382	8.3%
State Income Tax	9,826,341	14,172,979	4,346,638	44.2%
Home Rule Sales Tax	7,444,474	8,909,767	1,465,293	19.7%
Motor Fuel Tax	2,930,416	2,878,089	(52,327)	-1.8%
Local Use Tax	3,076,970	3,070,911	(6,059)	-0.2%
Total	**43,236,060**	**50,641,987**	**7,405,927**	**17.1%**

The table above shows that state collected revenues remain strong through June. Sales tax and home rule sales tax continue to benefit from strong consumer spending, price inflation, and the additional taxation of online retail sales. As a reminder, these taxes are delayed three months, so they are a lagging indicator. Income tax remains incredibly strong due to low unemployment and strong corporate profits. Motor fuel tax continues to be the only area of weakness. High fuel prices are likely contributing to a reduction in consumption. Higher prices do not mean more tax revenue in the case of fuel as the tax is a flat rate per gallon and not a percentage-based tax.

Locally Collected Revenues

Locally collected taxes provide a more real-time view of local economic activity. Sales through June are detailed below and compared to the first six months of 2021.

2022 Monthly Taxable Sales through June

Month	Food & Beverage	Hotel/Motel	Local Gas (gallons)	Real Estate

January	47.33	0.39	4.66	112.86
February	48.03	0.43	4.51	177.30
March	52.11	9.57	5.13	175.97
April	53.68	0.87	5.13	262.22
May	60.38	1.01	5.47	189.13
June	57.40	13.73	5.05	194.66
YTD Total	**318.93**	**26.02**	**29.96**	**1,112.14**
2021 YTD Total	**226.83**	**16.51**	**26.33**	**1,058.79**
Difference (%)	**40.6%**	**57.6%**	**13.8%**	**5.0%**
$ in millions				

Local tax data continue to show strength in the Naperville economy. Food and beverage sales remain very strong. The data shows a slight decline from May to June, which may indicate a shift in consumer behavior tied to rising inflation; however, more data is needed to verify that trend. Regardless, June sales are still 10% higher than the same period in pre-pandemic 2019. Hotel sales also continue to recover nicely with second-quarter sales recovering to levels not seen since 2019. The local gas tax has recovered as well but remains weaker than other taxes. Real estate sales also remain consistently strong through June.

2022 CIP Progress

Through June, departments are working to deliver on the largest capital improvement program (CIP) in recent years. While several projects are progressing according to plans, others have been delayed by a variety of external factors.

- **Electric Utility** - Cable injection to extend the life of aging cables is on track, as is the automation of feeders along the Warrenville Road technology/corporate corridor. Projects that are behind schedule include cable replacement and proactive transformer replacement which are impacted by significantly extended delivery lead times.
- **Water Utilities** - Progress is being made on both water main replacement projects, with the Modaff Road project slightly behind schedule due to slow contractor mobilization. The South Interceptor Bank Stabilization project is also on track, as are the early stages of Springbrook's multi-year UV disinfection project. Two projects experiencing significant issues due to equipment delivery delays are improvements to the Northeast Waterworks and Summerfield Lift Station.
- **TED** - The first major phase of the downtown streetscape work is progressing; however, several other major projects were significantly delayed by the quarry workers' strike that halted pavement work. This impacted the annual Street Maintenance Program and North Aurora Road widening. Work has resumed but is unlikely to be complete by year-end. Progress on the EnerGov technology solution for planning and development has made good progress this year but is unlikely to be complete in 2022.
- **Public Works** - While several facilities projects have made good progress, a number have been delayed by supply chain issues, specifically, the replacement of fire station garage doors and emergency generators. The delivery of vehicles has proven to be very challenging. Current expectations are approximately 50% of the vehicles on order will be received in 2022.

The table below summarizes CIP spending across the five capital categories.

Capital Items	**2022 Budget**	**2022 YTD Projection**	**2022 YTD Actual**	**Variance**
Infrastructure	78.33	22.88	12.71	-44%
Building Improvements	6.92	2.26	1.95	-13%
Vehicles & Equipment	6.89	2.25	0.97	-56%
Land	3.25	0.63	-	-
Technology	2.44	1.07	0.46	-57%
Total	**97.83**	**29.09**	**16.09**	-45%
***$ in millions**				

2023 Trend Considerations

Naperville's 2022 financial performance to date indicates the City continues to be in a solid place of financial strength as the nation moves out of the height of the COVID-19 pandemic. However, ongoing trends that impact multiple economic sectors - including service-based providers like local governments - have developed in the last year and show no signs of receding. These include:

- ***Shifting workforce resources*** - According to the U.S Labor Department, the unemployment rate is at a near 50-year-low of 3.6%, with 582,000 jobs added in July, and wage inflation at more than 5% year-over-year. However, various sectors continue to report significant employee movement in part due to shifting employee priorities and workplace expectations post-pandemic. At the City, some departments have seen an increase in employees leaving their current roles and moving to other roles within the organization or leaving altogether, which impacts the ability to meet deadlines and decreases institutional knowledge retention.
- ***Supply chain issues*** - As noted above, staff continues to see supply chain issues that are impacting capital projects. This includes significant lead times for product delivery in the utility, construction, and vehicle industries, including:
  - 1 to 2-year build time of heavy-duty/specialty vehicles
  - 50-plus weeks for rooftop air conditioning units
  - 50-90 weeks for electric transformers

  This lead time also impacts the City's procurement functions. Departments have been instructed to consider expedited procurement requests to account for longer delivery times, which may lead to requests for the Council to approve purchases in advance of budget approval.
- ***Regulatory demands*** - Staff has seen an uptick in public safety and utility legislation at the state level that requires specific actions to be completed by specific dates. Costs associated with these regulatory demands often include technology and/or capital and the personnel and resources associated with those components.
- ***Evolving customer service expectations*** - The pandemic expedited ongoing customer demands that services be available in numerous ways convenient to them, including online services. This is not expected to reverse, and the City must plan appropriate and ongoing resources around the technology associated with these offerings, including onboarding, tandem maintenance of old and new products, and ongoing maintenance and enhancements. This is anticipated to grow the City's resource and personnel needs in the coming years.

Staff is taking these considerations into account as 2023 budget development begins. For example, departments have been directed to account for inflation specific to their service areas as no one number appropriately captures inflation overall. In addition, departments are being asked to consider a longer-term approach to material acquisition as well as account for all resources tied to ongoing and new projects as well as regulatory demands.

Staff will be providing additional information about projected trends impacting the 2023 budget in advance of the start of formal 2023 budget workshops.

FISCAL IMPACT:

N/A