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Attachments: 1. 2023 - P03 Budget Report

Date	Ver.	Action By	Action	Result
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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the 2023 first-quarter financial report

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

The Financial Advisory Board received the Q1 budget report on April 24, 2023.

BACKGROUND:

The City’s Budget Team regularly monitors revenues and expenditures to identify trends that may have a positive or negative impact on the annual budget and Capital Improvement Program (CIP). Regular financial reporting helps to inform the City Council and the public on important issues related to City finances, including discussions around short- and long-term financial strategies. This month’s report focuses on the performance of the City budget through the first quarter (Q1) of 2023.

DISCUSSION:

Through the first quarter of the year, actual budget performance aligns with expectations in most areas. Due to the size and complexity of the budget, revenues and expenditures are summarized in the tables below according to three major fund categories. Those categories are defined as follows:

- **Maintenance & Operating Funds** - Responsible for funding core City services, such as public safety, public works, utilities and support services. This also includes the City’s self-insurance fund.
- **Capital & Debt Service Funds** - Responsible for funding current and future capital projects, as well as debt service on past capital projects.
- **Special Funds** - Responsible for funding special purposes that are not traditionally considered to be core services of the City, such as the Library, Naper Settlement, and Special Events &

Community Arts.

Staff measures year-to-date revenues and expenditures against three milestones: the full-year budget, a monthly projection based on five years of budget history, 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.

A detailed report by individual funds is included with this report as an attachment.

Revenues

Across all funds, revenues through Q1 total \$105.49 million. As expected, the significant revenue growth experienced over the past two years has slowed in early 2023. That said, most key revenues continue to see some growth year-over-year. Total revenue for Q1 is 5.4% lower than the same period in 2022 and 4.9% lower than the current year projection of \$110.92 million.

Revenue by Fund Category

	2023 Budget	YTD Actual	% of Total Budget	YTD Projection	% of YTD Projection	2022 YTD Actual	Variance to 2022 (%)
Maintenance & Operating	\$435.10	\$92.57	21.3%	\$95.58	96.8%	\$97.76	-5.3%
Capital & Debt Service	\$116.32	\$9.10	7.8%	\$10.85	83.9%	\$9.83	-7.5%
Special Funds	\$37.72	\$3.82	10.1%	\$4.49	85.1%	\$3.91	-2.2%

\$ in millions

While total revenue is lower than expected, most of the shortfall is related to revenues that are inconsistent from year to year, such as grants and other contributions on capital projects. There are also one-time revenues, such as bond issuance proceeds, that impact comparison to 2022. Most recurring revenue sources responsible for funding core services continue to meet or exceed expectations. Below are some key factors tied to revenue performance in Q1.

State Shared Revenues

- State income tax of \$5.73 million exceeded projections by 8.4% and increased 0.9% from 2022.
- State sales tax at \$12.03 million exceeded projections by 1.2% and is 4.6% higher than 2022, and home rule sales tax at \$5.11 million exceeded projections by 11.8% and is 6.0% higher than 2022 year to date.
- State motor fuel taxes at \$1.53 million fell short of projections by 2.2% but were 9.6% higher than in 2022.

Local Taxes

- Real estate transfer tax of \$825,000 fell short of projections by 11.8% and declined 40% from record highs in 2022 due to lower sales volume. This was anticipated as mortgage rates increased.
- Hotel/Motel tax revenue at \$779,000 fell short of projections by 5.8% but increased by 12.4% over 2022.

- Food and beverage tax revenue of \$1.62 million is 2.9% above projections and 5.4% higher than in 2022.

Utility Charges

- Electric charges total \$35.00 million, which is 9.7% lower than projections but 0.4% higher than in 2022. Those charges are budgeted in line with rate study assumptions and came in below budget in 2022 as well.
- Water charges total \$9.96 million, which is in line with budget projections and 4.7% higher than in 2022.
- Wastewater charges total \$6.53 million, which is 9.5% below budget projections but 4.3% higher than in 2022.

Other Revenues

- Utility taxes of \$4.75 million exceeded projections by 15.2% and were 2.7% higher than in 2022, primarily due to the natural gas use tax.
- Other charges for services total \$5.69 million and exceed current-year projections and 2022 actuals by more than 25%. This is largely due to ambulance fees of \$2.95 million exceeding 2022 by 60%. This may be attributable to the timing of payments from the City’s new billing provider.
- Property tax collections begin in the second quarter of the year, with initial disbursements due in May.

Expenditures

Expenditures across all funds total \$88.77 million. Total expenditures are 7.9% below the Q1 budget projection and 0.4% lower than in 2022. Spending in all three major operating funds (General, Electric and Water funds) is less than expected through Q1.

Expenditures by Fund Category

	2023 Budget	YTD Actual	% of Total Budget	YTD Projection	% of YTD Projection	2022 YTD Actual	Variance to 2022
Maintenance & Operating	\$429.49	\$77.45	18.0%	\$84.61	91.5%	\$79.19	-2.2%
Capital & Debt Service	\$135.77	\$3.64	2.7%	\$16.94	21.5%	\$3.00	21.6%
Special Funds	\$38.20	\$7.67	20.1%	\$7.65	100.3%	\$6.90	11.2%

\$ in millions

There are several reasons why total expenditures are lower than expected through Q1. Below are some key factors tied to expenditure performance in Q1.

Personnel Costs

- Regular salaries and wages at \$22.65 million are 6.0% less than projected and 2.0% less than in 2022 as a result of staff vacancies and hiring lags.
- Overtime pay is substantially lower than expected, down 24.3% from 2022, due to a mild winter with fewer snow events. Public Works overtime is down nearly 50%.
- Insurance benefits for healthcare and other related coverages are 10.2% lower than in 2022 due to positive experiences in both the HMO and PPO health plans, whose claims are well

below projections through Q1.

Purchased Services

- Architect and engineering services are well below budget at just \$78,550 through Q1. Expenses are expected to increase as construction season gets underway.
- Operational services at \$681,289 are 63.4% below projections and 29.9% lower than in 2022. This is largely due to savings in contracted snow removal in Q1.
- Software and hardware maintenance at \$2.21 million is 47% higher than projections and 40% higher than in 2022 due to a change in the timing of payment for a Microsoft enterprise agreement valued at approximately \$500,000.

Purchased Items

- Purchased Electricity for resale to customers at \$24.33 million is 5.9% lower than in 2022, which aligns with the lower-than-expected electric revenue.
- Purchased Water for resale at \$6.29 million is 12.4% higher than in 2022.
- Other purchased items are 6.8% below projections but 10.5% higher than in 2022 due to increased spending on operating supplies. This is especially the case in the Electric Utility, as its supply purchasing patterns have changed due to supply chain issues. Spending was lower-than-expected on some items such as road salt and fuel.

Capital Projects

Spending on capital projects through Q1 is lower than anticipated but is 29.1% higher than in 2022. While several major projects, including the Washington Street Bridge, are now under construction or due to begin shortly, several projects have already seen significant delays. Those delays are attributable to several factors, the most common one being challenges associated with project design and engineering. Construction of the following projects has been delayed until 2024:

- Downtown Streetscape - Phase 2 (Washington Street) - \$6.65 million
- Columbia Street Reconstruction - \$3.38 million
- North Aurora Road Underpass - \$12.0 million
- Naperville Road Improvements (DuPage County Project) - \$1.0 million
- Northwest Wastewater Pump Station Improvements - \$2.0 million

Based on some of the significant project delays noted above, it is unlikely the City will borrow for general capital projects in 2023. The initial estimate included in the 2023 budget was to borrow \$14.5 million. The 2023 capital program (non-utility) can likely be supported entirely by recurring revenues and existing cash balances.

The Water Utilities will likely need to borrow for capital improvements in 2023, although less than was projected in the budget. The 2023 budget included an estimated \$20 million in borrowing. That amount will likely be closer to \$10-12 million.

Because the City borrows on a reimbursement basis, all capital project spending will be reevaluated in Q3 to determine borrowing needs. This prevents borrowing more than is needed for the year and is part of the City's overall strategy to manage debt.

Summary

Although growth in some of the City's key revenues appears to have slowed in comparison to the past two years, most revenues continue to show year-over-year growth. Through Q1, staff has seen

no indications of an impending severe economic downturn, and staff expects revenues to continue supporting budgeting expenses in 2023. While some cost inflation and supply chain issues persist, expenses continue to be managed according to the budget plan. Staff expects operating budgets to remain in line with expectations, while capital budgets are likely to be under budget for 2023.

FISCAL IMPACT:

N/A