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Attachments: 1. Q2 Financial Report One Page Summary, 2. 2018 Q2 Financial Report

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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the 2018 2nd Quarter Financial Report

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

The Financial Advisory Board (FAB) reviewed this report at their July 30, 2018 meeting

BACKGROUND:

Attached is the 2018 2nd Quarter Financial Report. The information contained within will be presented by staff during the August 21 City Council meeting; providing Council an opportunity for discussion related to the information contained in the reports.

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

DISCUSSION:

Overall Highlights

State Actions

In early June, the State of Illinois passed its Fiscal Year 2019 budget. Included in the budget were two provisions, effective July 1, that directly impact the City's budget.

- *Administrative Fee on Home Rule Sales Tax (HRST)* - For the 2018 state budget fiscal year, the state implemented a 2% administrative fee on HRST collections. This reduced the City's collection by around \$180,000 annually. In 2019, the state reduced this fee to 1.5% of collections. Due to this action, the City projects to see \$30,000 of incremental revenues in 2018 and an estimated \$70,000 of incremental revenues in 2019.

- *Income Tax* - The State distributes income taxes through the Local Government Distributive Fund (LGDF) on a per capita basis. For the 2018 state budget year, which ran through June 30 of this year, the state reduced disbursements by 10%. For the 2019 budget year, the state decided to once again reduce disbursements, this time by 5%. This unanticipated decrease for the second half of 2018 will reduce the City's projected revenues by \$312,000. It will also reduce the City's budgeted revenues in 2019 by \$732,000.

United States Supreme Court Decision

On June 21, the United States Supreme Court issued an opinion in the South Dakota v. Wayfair case. This decision states that governments can require vendors with no physical presence in the state to collect sales tax. The State of Illinois, anticipating this favorable decision, passed the Illinois Fairness Act in the 2019 budget that will allow the state to assess the 6.25% use tax on sellers that meet certain requirements. The state anticipates the incremental collection of \$150 million in revenues over a nine-month period starting in October. Use tax is distributed based upon a specific formula; however, it is essentially a per capita distribution. Based upon current disbursement levels, the City estimates a \$350,000 increase in 2019.

Pension Benefits and Actuarial Valuations

- *Public Safety Pension* - The City recently received the 2018 public safety pension actuarial valuations calculated by the City's actuarial consultant, Foster and Foster. The City's overall contribution level projections for 2019 are seeing an overall decrease of \$41,508, or 0.26%. The Firefighter pension increased by \$43,716, or 0.49%, and the Police pension decreased by \$85,224, or 1.20%.
- *Illinois Municipal Retirement Fund (IMRF)* - The City received preliminary figures from IMRF for 2019 contributions. The City's contribution rate is estimated at 9.34%, which is a 16% reduction from the 2018 rate of 11.12%. The City's overall IMRF contribution is approximately \$6.2 million in 2018; therefore, across all funds the City is projecting a \$990,000 decrease in expenditures for 2019.

Special Census Results

In 2018, the City conducted a Special Census to selectively review population figures in specific areas of the City that staff determined had high levels of growth. Increases in population figures increase local use tax, income tax and state motor fuel tax revenues as each is distributed on a per capita basis. The results of the special census were favorable, with an increase of 5,988 residents versus staff's original projection of 4,650 new residents. In addition, the City originally planned to conduct the census this summer and start receiving incremental revenues in March of 2019; however, due to favorable timing, the census was conducted in early spring and the City now anticipates receiving incremental revenues in November.

The cost of the Special Census was \$210,000, with \$127,000 being spent on the application itself and \$83,000 to pay for temporary staff. The City projects that this investment will be paid back over the first four months of additional revenue collections. Overall, the City expects to collect an incremental \$2.38 million through 2021, when the results of the 2020 decennial census will replace the new population figures. In 2019, the City anticipates \$880,000 in revenue increases for motor fuel tax, local use tax, and state income tax.

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 second quarter of 2018, the City has spent \$69.8 million on salaries and benefits, which is 50.1% of the annual salary and benefit budget. This figure is trending 2.9% higher than 2017 due to winter operations overtime and the temporary pay for special census workers.

- Regular Pay is at \$44.3 million, which is 1.0% lower than 2017.
- Overtime Pay is trending 5.6% higher than 2017 figures, with \$3.8 million spent through the second quarter. This is mainly attributable to winter operations.
- Temporary Pay is 79.5% higher than 2017 yet remains in line with budgetary projections. This is primarily attributable to temporary staff for the Special Census.
- Healthcare costs are trending positively, with overall healthcare (PPO, HMO and dental) costs down 7.9%. Costs include administrative fees, premiums and claims.

Maintenance and Operating Funds

General Fund

- *Major Revenues*
 - **Sales Tax** - \$16.2 million of receipts was received in state retail sales tax, finishing third in the state behind the City of Chicago and DuPage County for the second quarter. This was an increase of 2.1% compared to the second quarter of 2017 and is aligned with budget projections.
 - **Utility Taxes** - \$8.2 million was received through the second quarter. This figure trails budget projections by 5.8%. The primary driver of this underperformance is due to the telecommunications tax, which continues to decline. Overall receipts are down 7% compared to 2017. However, the City did increase the rate from 5% to 6% starting on July 1; this increased rate should minimize future losses.
- *Expenses* - General Fund expenditures of \$59.7 million performed close to expectations, with 49.3% spent through the second quarter, which is 3.5% higher than 2017.

Electric Utility Fund

Overall the Electric Utility Fund performed close to expectations in the second quarter for both revenues and expenses. There was a slight increase in the purchased power cost compared to 2017 figures, driven by an increase in the wholesale rate, which is partially offset through the Purchased Power Adjustment (PPA).

- Revenues stand at \$79.3 million, which is 46.4% of the annual budget and 5.3% higher than 2017.
- Expenses stand at are at \$68.5 million, which is 42.5% of the annual budget and is 3.7% higher than 2017.

Water Utilities Fund

Overall the Water Utilities Fund performed close to expectations in the second quarter for both revenues and expenses. The City experienced a slight increase in the overall cost of purchased water due to an eight-cent increase to the DuPage Water Commission (DWC) wholesale rate. Additionally, the fund anticipates a 6% increase in revenues based on the rate model approved last year.

- Revenues stand at \$27.5 million, which is 44.6% of the annual budget and is 12.3% higher than 2017.
- Expenses stand at \$22.5 million, which is 36.2% of the annual budget and is 0.7% higher than 2017.

Special Funds

Revenues

The primary revenue source for three of the major special funds - Library Fund, Naper Settlement Fund and SSA #26: Downtown Maintenance Fund - is property taxes. The first disbursement of property taxes was recorded in June and the revenues received align with budgetary projections for 2018.

One revenue of note is the food and beverage tax. Receipts continue to overperform relative to prior year actuals in the second quarter. The City has receipt of \$2.2 million, which is a 3.3% increase compared to 2017 and an overperformance of budgetary projections.

Expenses

Nearly all expenditures through the Special Funds are aligning with prior year actuals and the 2018 projected budget. Items not aligning are primarily due to timing issues. For example, the City projected to disburse \$1 million through the Emergency Telephone System Board (ETSB) to the City of Aurora by this time; however, Aurora has not sought reimbursement to date. The funds will be a pass-through disbursement when requested and approved by the ETSB.

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). In 2018, the HRST is being utilized for capital project funding. Through the second quarter, the City collected \$4.25 million in revenue, which is a 1.5% increase from the \$4.19 million of revenue collected through the second quarter of 2017.

The revenue is also outperforming budgetary projections by 3.3%. 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.

An unbudgeted revenue realized in the second quarter was the sale of 8.2 acres of property off of Frontenac Road for \$2.2 million. During the financial principles discussion in 2015, City Council directed staff to utilize one-time revenues such as property sales to provide funding sources for capital expenses or for increasing fund reserves. As part of the 2019 budget process, staff will recommend using these funds for capital projects to reduce potential borrowing.

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 second quarter MFT remains in line with budget projections, with \$1.8 million in revenue received from a budget of \$3.8 million. However, the local gas tax is trending 4.6% below last year at approximately \$1.02 million in revenues. This is driven primarily by a reduction in the number of gallons sold in Naperville. There have been 1.9 million fewer gallons sold through the second quarter, due to retail closures, resulting in a \$330,000 decrease in revenues.

The Phosphorus Fund continues to perform near expectations, with \$287,647 of revenue generated through the second quarter. The City projects 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.

Expenses

Currently capital project expenditures are outpacing 2017 actuals. Between the Capital Projects fund and the Bond fund, the City has expended \$6 million in 2018 compared to \$2.8 million in 2017. However, this is under the City's six-month projected expenditures of \$8.5 million. This year-over-year increase is driven by several main projects, including the Fire Station Alerting System at \$580,000, \$623,000 for a new fire engine and \$327,000 in land purchases related to the North Aurora Road Underpass Project. Staff continues to evaluate and monitor capital expenditures leading towards a future bond sale in October 2018.

Summary

Overall, the City performed close to expectations in the second quarter for both revenues and expenses. Major items highlighted above account for the difference between projections and actuals; other differences are attributable to timing issues.

- Citywide revenues came in at \$212.9 million, which is 47.2% of budget. This is a 4.6% deviation from 2017 revenues and less than a 1.0% from projections.
- Citywide expenses came in at \$180.7 million, which is 40.9% of budget. Expenses were 0.9% higher than 2017 and 6.6% lower than budget projections.

Throughout the third quarter staff will continue to monitor any trends in revenue and expenses and provide City Council updates on the overall financial status of the City.

FISCAL IMPACT:

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