



Legislation Text

File #: 21-0812, Version: 1

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Pass the ordinance approving an amendment to increase the City of Naperville Annual Budget for Calendar Year 2020 by \$8,706,400 (requires six positive votes)

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

The City's finances are audited annually by an external company according to local code and state statute. The fiscal year ended on December 31, 2020 and the audit began shortly thereafter. As part of the audit process, staff closely examines all City funds in compliance with the annual budget. After all year-end expenditures, transfers, and accounting entries are completed, each fund is reviewed to ensure actual expenses did not exceed the approved budget. During the 2020 audit process, ten of the City's 31 funds were identified as being over budget. This is not an uncommon occurrence. Best practice and generally accepted accounting principles (GAAP) dictate that any fund exceeding budgeted expenses should be corrected through a budget amendment. This budget amendment is in compliance with GAAP and allow for the timely completion of the annual financial audit.

DISCUSSION:

The City's budget is organized by funds. Each fund is comprised of numerous expenditure accounts and each of those accounts is assigned an annual budget. While individual accounts may go over budget by year-end, those are typically offset by other accounts being under budget, and no action is required. However, strict budgetary compliance is maintained at the fund level. Should any fund exceed its budgeted expenditures, in total, the budget should be amended.

The following table details the ten funds that are identified as being over budget for 2020 and the recommended amended budget:

Fund	Increase/(Decrease)	Amended Budget
Community Development Block Grant	\$33,822	\$568,822
Debt Service	\$4,478,351	\$17,227,063
E911 Surcharge	\$153,548	\$3,053,548
ETSB	\$2,496,653	\$4,796,653
Foreign Fire Tax	\$4,790	\$327,790

Library Special Revenue	\$2,212	\$6,712
Naper Settlement	\$312,436	\$3,808,266
Renewable Energy	\$127,486	\$626,486
SSA #23 - Naper Main	\$34,931	\$99,931
Water Street TIF	\$1,062,171	\$1,345,971
Total	\$8,706,400	\$31,861,242

Below are the reasons for each fund going over budget:

Community Development Block Grant (CDBG) Fund: In 2020, the CDBG grant activity exceeded budgeted amounts due to unanticipated expenses related to COVID-19. The additional grant expenditures were funded through CARES Act revenue and sufficient to cover these expenses.

Debt Service Fund: In 2020, the City refunded three prior bond issuances, taking advantage of interest rates lower than those that existed on the callable debt. As part of the refunding process, the Debt Service Fund records payments to an escrow account for the payoff of the existing debt. Those expenses are directly offset by the proceeds of the new debt issuance.

E911 Surcharge Fund: Expenditures in this fund come in the form of operational transfers that align with the revenue received from state-imposed surcharges on telecommunications bills to fund 911 systems. In 2020, revenue exceeded budget estimates resulting in higher than anticipated operational transfers. The higher transfers come at the benefit of the General Fund.

Naperville Emergency Telephone System Board (ETSB) Fund: This fund acts as a pass-through fund for the City of Aurora. It operates the same way as the E911 Surcharge Fund. In early 2020, the City received a delayed surcharge transfer from the Kane County ETSB that was due to the City of Aurora. That revenue was subsequently transferred to Aurora, increasing expenditures for the year beyond what was included in the budget.

Foreign Fire Insurance Tax Fund: This is a unique fund in that the expenditures are managed directly by the Foreign Fire Insurance Tax Board and not the City. However, the revenues and expenses for the fund are included in the City's budget. For that reason, expenditures are typically estimated during the budget process. Both revenues and expenditures exceed budget estimates in 2020.

Library Special Revenue Fund: Expenditures in this fund exceeded budget; however, contributions to the fund were far greater than anticipated and exceed expenses by nearly four times. The City does not maintain direct control over Library expenditures.

Naper Settlement Fund: Salaries and wages in the Naper Settlement Fund are budgeted by position. A vacancy factor is then applied to account for historical position vacancies that results in unused budget dollars at year-end. In 2020, Naper Settlement's actual salaries and wages were closely aligned with the budget and the budgeted vacancy turned out to be much lower than anticipated. Revenues declined in 2020, so cash balance will need to cover the increased expenditures.

Renewable Energy Fund: The Electric Utility issued a greater number of renewable energy grants in

2020. The increase is partially offset by higher-than-expected revenue coming into the fund. Any remaining amount is covered by cash balance in the fund.

Special Service Area (SSA) #23 - Naper Main Fund: SSA #23 is associated with the incentive agreement for the Main Street Promenade East development to pay for parking garage-related debt payments. The early years of the agreement included an annual abatement of the SSA levy. That abatement no longer exists, so the full levy amount was transferred to debt service in 2020, while the budget only included the abated levy amount. Revenues align with this expenditure.

Water Street TIF Fund: In 2019, staff began evaluating the cash balance that existed in the Water Street TIF Fund. Staff determined that unspent bond proceeds existed in that fund and those proceeds were transferred back to the Bond Fund to be repurposed toward other bondable projects. In 2020, staff made additional transfers out of the TIF after determining that a 2017 parking garage lease payment was inadvertently directed to this fund instead of the Downtown Parking Fund. The remaining cash balance was determined to be prior property tax revenue, investment income, and other revenue, which at this point should contribute to the repayment of debt undertaken by the TIF. The excess cash balance was transferred to the Debt Service Fund, which is responsible for the repayment of the debt. Prior to 2020, the Debt Service Fund has expended more in debt service than the TIF has covered through property tax transfers as the TIF has not yet reached its anticipated valuation.

FISCAL IMPACT:

This budget amendment will increase the 2020 Annual Budget by \$8,706,400, from \$467,478,305 to \$476,184,705. While the budget is being increased to align with actual expenses in specific funds, the total expenses across all funds remain under budget.