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FINANCIAL ADVISORY BOARD AGENDA ITEM

ACTION REQUESTED:

Receive the 2018 Q2 Budget Report

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

Quarterly Report

DISCUSSION:

State Actions

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

- ***Administrative Fee on Home Rule Sales Tax (HRST)*** - For the 2018 state budget year, the state implemented a 2% administrative fee on HRST collections. This reduced the City's collection by around \$180 thousand annually. In 2019, the state reduced this fee to 1.5% of collections. For 2018 the City projects to see \$30 thousand of incremental revenues and around \$70 thousand 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, the state reduced disbursements by 10%. For the 2019 budget year, the state reduced disbursements by 5%. This unanticipated decrease for the 2nd half of 2018, will reduce the City's projected revenues by \$312 thousand. It will also reduce the City's budgeted revenues in 2019 by \$732 thousand.

United State Supreme Court

On June 21, 2018, the United State Supreme Court issued an opinion in the South Dakota v. Wayfair case. The 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 9-month period starting in October. Use tax is distributed based upon a specific formula but is in essence a per capita distribution. Based upon current disbursement levels, the City estimates a \$350,000 increase in 2019.

Pension Benefits

- *Public Safety Pension* - The City received the 2018 public safety pension actuarial valuations calculated by the City's actuarial consultant, Foster and Foster. The City's overall required contribution level for 2019 will decrease by \$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%. Please see the agenda item related to pensions for further detail.
- *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 around \$6.2 million in 2018, therefore across all funds the City is projecting a \$990 thousand decrease in this expense for 2019.

Special Census

In 2018, the City of Naperville conducted a Special Census to review population figures in specific areas of the City that staff had determined had high levels of growth. Increases in population figures increase revenues for the City in three main areas; Local Use Tax; Income Tax; and State MFT revenues which are all distributed on a per capita basis. The City originally projected to conduct the census in Summer of 2018 and start receiving incremental revenues in March of 2018 but due to favorable timing, the census was conducted in early Spring and now anticipates receiving incremental revenues in November. The original projected growth was 4,650 residents and the actual growth came back at 5,988.

The cost of the Special Census was \$210 thousand, \$127 thousand for the application and \$83 thousand for temporary staff. The City projects that this investment will be paid back over the first 4 months of additional revenue distributions. Overall, the City expects to receive an incremental \$2.38 million through 2021, when the results of the 2020 decennial census will replace the new population figures.

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 budget. This figure is trending 2.9% higher than 2017.

- 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 in the second quarter. This is mainly attributable to winter operations.
- Temporary Pay is 79.5% higher than 2017 but is in line with budgetary projections. This is primarily attributable to the 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 - \$16.18 million of receipts were 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 - \$8.15 million was received through six months. 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 1st, and this increased rate should minimize future losses.
- *Expenses* - General Fund expenditures of \$59.7 million performed close to expectations with 49.3% spent through 6 months and 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 purchased power cost compared to 2017 figures, which is partially offset through the Purchased Power Adjustment (PPA).

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

Water Utilities Fund

At a high-level, 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 8-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 are at \$27.5 million, which is 44.6% of the annual budget and is 12.3% higher than 2017 through six months.
- Expenses are at \$22.5 million, which is 36.2% of the annual budget and is 0.7% higher than 2017 through six months.

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 collected \$2.2 million to date, which is a 3.3% increase compared to 2017 and is overperforming budgetary projections.

Expenses

Nearly all expenditures through the Special Funds are aligning with prior year actuals and the 2018 projected budget.

The 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. Aurora has not sought reimbursement to date but 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.

This 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 that was realized in the second quarter of 2018 was the sale of 8.2 acres of property off of Frontenac Road for \$2.2 million dollars. During the development of the financial principles 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 budgetary process, staff will be recommending the usage of 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 is tracking 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 resulting in a \$330 thousand decrease in revenues.

The Phosphorus Fund continues to perform near expectations, with \$287,647 in revenue collected through the second quarter. The City projected 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 6-month projected expenditures of \$8.5 million. The primary driver of the increase over 2017 are driven by several main projects that include the Fire Station Alerting System (FSAS) 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 will continue 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. The major items highlighted above are the preponderance of the divergence from budget. Other differences are attributable to timing issues for both revenues and expenses.

- 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 the Financial Advisory Board updates on the overall financial status of the City.