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FINANCIAL ADVISORY BOARD AGENDA ITEM

ACTION REQUESTED:

Receive the 2019 Q2 Budget Report

DEPARTMENT: Finance Department

SUBMITTED BY: Erik Hallgren, Budget Manager

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

Attached is the 2019 2nd Quarter Financial Report. The information contained within will be presented by staff during the August 20, 2019 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

Property Taxes

The City received \$26.05 million in property taxes in June. The majority of revenues were distributed to the Library (\$7.55 million), Debt Service (\$5.62 million), Fire Pension (\$4.32 million) and Police Pension (\$3.35 million) funds. The City requested approximately \$50.91 million in property taxes this year. The second major payment will be received in September.

Salaries, Benefits and Healthcare

Salary and benefits combined is the largest budgeted expense component and 31% of the

expenditure budget. Year-to-date total spending is \$69.9 million, 49.8% of the projected year-to-date budget. Regular pay is slightly under budget due to open positions. As a result, overtime is over budget in most operational departments (Electric, Fire, Police, Public Works and Water). Overtime is currently 53.2% of budget, \$588,000 over the year-to-date budget.

Year to date contributions for medical, dental, and other benefits are slightly below budgetary projections, these are transfers from operating funds to the self-insurance fund. The reason for the decline is due to open positions. Simultaneously, the revenues to the self-insurance, which is used to pay claims, is down by 5%.

The City has also had an increase in public safety pension payments. A total of \$8.3 million is budgeted to date, with \$8.5 million paid out. The primary funding for pensions is property taxes but a portion is funded through the City's food and beverage tax. With higher than projected food and beverage tax receipts those funds have been used to pay pension obligations beyond the City's actuarial requirements.

State Shared Tax Revenues

Revenues from state taxes are currently out-pacing projections and up nearly five-percent from last year. Sales tax revenue, the largest component of state tax revenues, totaled \$16.62 million, slightly ahead of the 2018 performance.

The City experienced a noticeable bump in state income, local use and motor fuel tax revenues, which are distributed on a per capita basis. The primary driver for the increase is related to the Special Census completed in 2018, which added 5,596 people to the City's certified population. Approved in 2017, the Special Census was completed in 2018 with a total cost of \$210,469. The projected payback on the census was three-months. In December 2018, the City's population adjusted to 147,449. To date, the census generated an additional \$558,000, including \$216,000 in the first three months.

State income and local use tax dollars are both up approximately 20% from 2018. Income tax revenues totaled \$8.89 million through June, an increase of \$1.42 million. Local use tax revenues totaled \$2.44 million, up from \$2.01 million last year. In addition to the benefit of the special census, the City is also benefiting from an overall increase in statewide tax receipts, with the state bumping income tax revenue up 15% and local use tax revenue 17%.

A state shared tax that would have declined without the special census was MFT distributions, which totaled \$1.82 million, nearly matching the 2018 output. The state reduced distributions on the tax by nearly four-percent. The City is likely to see an additional bump in MFT revenues in the coming months. As part of Governor Pritzker's Rebuild Illinois plan, the state motor fuel tax rate doubled to \$0.38 per gallon on July 1. Forty-nine percent of the MFT revenues will be distributed to municipalities based on population size.

Local Tax Revenue

The increased rate to the Home Rule Sales tax resulted in a nearly 40% increase in revenue. The tax generated \$6.70 million through June and is tracking on pace with staff projections. Last year, when the City maintained a 0.50% HRST, revenues were \$4.47 million. On July 1, 2018, the City increased the HRST to 0.75%. The increase was anticipated to generate \$13.98 million for 2019.

The food and beverage taxes continue to generate significant returns. Through June, the City

collected \$2.63 million, which is equal to the 2018 total through six months. The City projects the tax will generated \$5.05 million by the end of the year. Through June, \$2.28 million was generated through the citywide food and beverage tax, a 3.6% increase. An additional \$350,000 was generated from the downtown food and beverage tax, which goes to the Downtown Parking Fund.

Maintenance and Operating Funds

General Fund Revenues

- **Utility Tax** - Totaled \$8.42 million, which is a three-percent increase over last year. The City receives utility taxes for electricity, telephone, natural gas and water. The most significant increase is related to the state telephone tax, which is up more than 15% and totaled \$2.32 million, a \$300,000 increase over last year.
- **Charges for Service** - Totaled \$6.51 million, up five-percent. Refuse and recycling revenues were up more than two-percent and totaled \$3.29 million. Ambulance fees were also up five-percent and totaled \$2.37 million. Fire alarm monitoring charges also jumped, totaling \$118,000, more than twice the total revenues from last year. The refuse collection increases were projected as part of the annual rate increase, ambulance fees continue to overperform expectations, and fire alarm monitoring is due to timing of payments.
- **Fees** - The City experienced a slight decline in fee revenues from residential and commercial permits. Residential permits were down nine-percent from last year, while commercial permit revenue dipped one-percent. Overall, both revenues are still on pace to meet projections, but permits dipped 16% from last year. Through June, the City issued 3,412 total permits compared to \$4,049 the previous year.
- **Hotel/Motel Tax** - The City experienced a 31% bump in hotel/motel tax revenue compared to last year. The tax generated \$1.32 million prior to rebates, a \$313,000 increase over 2018. The net revenue, which includes rebates for the four hotels located throughout the City, is up 11% over 2018 and totaled \$697,000. These increases were projected as the City will receive a full year of revenue at the 5.5% rate compared to 9 months of collection in 2018.
- **Real Estate Transfer Tax** - The revenue generated \$2.24 million through June, a \$100,000 decline from 2018, but still trending well with last year.

Water Fund Revenues

Revenues for the Water Fund are up nearly two-percent and totaled \$28.05 million. Most revenues are related to charges for water, which totaled \$17.76 million, nearly identical to the 2018 output. The revenue is down compared to staff projections, however purchased water is also down nearly 10% in expenses. Retail rate revenue totaled \$4.67 million, nearly three-percent above 2018 figures. Wholesale revenues were at \$9.77 million and are anticipated to increase following the DuPage Water Commission increasing the rate in May. Customer Service charges also totaled \$3.07 million, more than eight-percent above 2018, which correlates with rate increases applied to commercial customers at the beginning of the year.

Wastewater revenues totaled \$10.52 million and were up nearly nine-percent. Rate increases to the wastewater charges are the primary driver, as usage charges totaled \$9.73 million and were up nearly eight-percent. Revenues from the phosphorous surcharge also totaled \$545,000, nearly double the 2018 revenues. Residential customers currently pay \$1.80 per month, which will remain in effect until the City generates half the funds needed for state-mandated facility upgrades.

Electric Fund Revenues

Revenues from the Electric Utility totaled \$72.55 million, an 8.5% decline from 2018. The primary component of revenues are tied to charges for electricity, which totaled \$70.65 million through June. The decline in revenues nearly matches the decline in purchased electricity, which is also down nearly nine-percent from last year.

Staff anticipated a slight reduction in revenues due to a two-percent reduction to rates approved for the Electric Utility during the 2019 Budget process. Retail rates were down five-percent at the midway point, totaling \$48.51 million. Demand charges declined nearly four-percent and totaled \$16.76 million and customer charges totaled \$6.27 million.

General Fund Expenses

General Fund expenditures are approximately \$350,000 less than budget (-0.06%).

Significant maintenance and operating fund expense items include:

- *Electricity:* The Electricity expense to date is \$2.2 million. This is consistent with 2018 spending and budget.
- *Refuse and Recycling:* The cost for Refuse and Recycling is \$240,000 over budget and \$200,000 over last year. A portion of the increase when comparing 2019 to 2018 is due to the timing of a payment (\$103,000). In addition, cost for the service is slightly higher due to the new contract. In previous years, waste collection services were provided by Waste Management of Illinois. Recycling collection was provided by Groot Industries. Starting in 2019, the services have been consolidated under Groot Industries. This expense increase has a comparable increase in revenues.
- *Operational Services:* Total year-to-date expenditures for Operational Services are \$1.1 million. Included in this expense is \$224,000 for Roadway Plowing by third-party contracts and \$177,000 for brush collection. Finally, \$168,000 has been spent on janitorial and security expenses.
- *Salt and Chemicals:* Major expenditures include \$640,000 for roadway salt and calcium chloride.

Water Fund Expenses

The Water Utility spending is consistent with budget. Purchased water is 41.0% of the Utility's budget. Spending on water to date is consistent with budget at \$11.3 million and is \$1.3 million over last year. The amount of purchased water decreased approximately 10% from 2018. Because of the rainy spring, there was not a need to water landscaping. However, because of the timing of billing, the 2018 balance only reflects five (5) months of usage and the 2019 balance includes six (6) month.

The Utility increased its focus on replacing old water meters. The budget was more than doubled between 2018 and 2019 from \$925,000 to \$2.3million, with \$1.2 million spent to date. In addition, the department replaced their 2003 Ford F-550 with a 2019 vehicle of the same model. The cost for the vehicle is \$111,000.

Electric Fund Expenses

Electric Utility expenditures for the first half of the year total \$63.3 million. Purchased power, which represents 79% of total expenditures, is less than prior year spending by \$4.4 million. Consumption for the first half of the year is down due to the mild spring and the first hot days only arriving at the

end of the quarter in late June.

The Electric Utility received a \$100,000 State Grant. Funds will be used to install solar panels on the Department of Public Works Operations Center and expended in the third and fourth quarters, with reimbursement to follow. In addition, work continues on the cable injection. The program is a successful and cost-efficient way to extend the life of the electric cables. The department completed 18,000 linear feet with an additional 110,000 linear feet planned for the remainder of the year. The anticipated cost will be \$1.3 million.

Special Funds

All expenditures through the Special Funds are aligning with prior year actuals and the 2019 projected budget, except for the ETSB Fund. The fund is a pass-through for funds collected from the State of Illinois on behalf of the City of Aurora's PSAP. The City collected and distributed \$674,284 in the first six months of 2019 compared to zero dollars in 2018. The City took the responsibility as of November 2018, when collections and distributions began. However, collections have been significantly less than anticipated in recent months, so it is expected the distributions during the second half of the year will be significantly lower. In conjunction with the City of Aurora, staff is reviewing the decrease in revenues.

Capital and Debt Service Funds

Revenues

The largest revenue in the Capital and Debt Service Funds will not be received until October. The City budgeted for \$5.98 million in bond proceeds, which will be issued later this year. Last year, the City borrowed \$4.64 million to support the capital improvement program.

Revenues from the local gasoline tax held steady, generating \$1.29 million through June, nearly matching the 2018 output. The City is on track to receive \$1.29 million in local gasoline tax revenues.

Expenses

Capital outlay is progressing close to budget. Most of the spending is in the Capital Projects Fund. Significant work is being done on the 91st Street pavement project. Replacement of 1.2 lane miles is underway. In addition, the traffic lights at 95th Street and Knoch Knoll are being replaced. The project was budgeted in 2018, and near completion.

Other significant capital expense activity includes:

- *Bond Fund expenses:* The 2019 Bond Fund Budget includes \$820,000 for architecture and engineering services. This is the anticipated invoice from the State of Illinois for the North Aurora road project completed in 2015. In addition, approximately \$650,000 was spent on the ERP, Tyler Munis.
- *Capital Projects Fund:* Spending was on budget for work on the annual crackfilling program (\$320,000) and patching program (\$240,000). The Department of Public works performed roof repairs on Fire Stations #4 and #7 and the Municipal Center, spending approximately \$435,000. In addition, the Fire Department committed to purchasing a Ladder Truck for \$1.35 million. The truck is expected to be placed in service in early August.

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 \$208.99 million, which is 46.0% of budget. This is a 1.9% deviation from 2018 revenues and 6.6 lower than budget projections.
- Citywide expenses came in at \$182.48 million, which is 40.4% of budget. Expenses were 0.8% higher than 2018 and 6.1% 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.