



Legislation Details (With Text)

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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the April 2021 Financial Report and First Quarter Budget Review

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

Developed in response to the unprecedented economic impacts resulting from the COVID-19 pandemic, the monthly financial report provides timely information and data related to the City's financial position and the local economy. This report is intended to assist the City Council in making strategic financial decisions when necessary. The report will be presented at the second meeting of each month.

DISCUSSION:

Recent Actions & Trends

Response to the pandemic continues to constantly evolve, and staff is monitoring national, state, and local changes that may impact the local economy.

Recent events include:

- 1. Vaccination Progress:** The rollout of the COVID-19 vaccine continues to improve as more doses become available. The Illinois Department of Public Health (IDPH) reports full vaccination of 24.0% of DuPage County's population and 18.7% of Will County's population as of April 10. DuPage County continues to lead the Chicago metropolitan area in percent of population vaccinated. On April 7, the City partnered with Jewel-Osco and Mall of India to host

a one-day vaccination clinic, delivering 2,700 vaccinations to Naperville residents. In Region 7 (Will) and Region 8 (DuPage), metrics used to track the prevalence and severity of the coronavirus have deteriorated in recent weeks. Case positivity rates and hospital admissions have risen; however, neither region has seen metrics that would require additional mitigation measures to be put in place.

2. **Return to Learn:** School districts 203 and 204 implemented full in-person learning after their respective spring breaks. From an economic standpoint, the move toward “normal” daily activities is a positive step. This change is likely to increase economic activity, such as increases in motor fuel consumption and the purchase of back-to-school supplies and apparel that may have been postponed during remote learning.

Economic Indicators

Staff continues to monitor and report on state and local revenues as indicators of economic recovery. This group of revenues provides insight into the local economy as they are largely driven by consumer behavior at the local level. Revenues disbursed by the state on a per capita basis, such as income, motor fuel, and use taxes, are indicators of the broader statewide economy.

1. **State Collected Revenues:** Revenue disbursements for March continued to exceed budget projections in total. Monthly projections are based on the historical timing of when the City receives revenue throughout the year as some categories fluctuate more than others from month to month. Because of the state’s disbursement schedule, some of these revenues are received three full months after the tax is collected at the point of sale.

As a reminder, sales tax and home rule sales tax (HRST) are disbursed based on actual retail sales occurring within the City. Income tax, motor fuel tax (MFT), and local use tax are disbursed on a per capita basis.

- Sales tax totaling \$3.3 million exceeded budget projections by 3.6% and topped the prior month’s revenue by 16%. This was not unexpected as March revenue represents December sales. As was reported last month, holiday sales got off to a slow start in November, but this data shows an improvement in December.
- State income tax totaling \$1.1 million exceeded budget projections by more than 47%, with the City continuing to reap the unanticipated benefits of higher Local Government Distributive Fund (LGDF) distributions.
- HRST totaling \$1.2 million was 16% below budget projections but improved by 19% from the prior month. As a reminder, the monthly budget projection does not account for the anticipated increase in receipts from online sales that will be seen come April. Staff will analyze revenues received in early April and report to Council in the May Financial Report.
- MFT, including transportation renewal funds (TRF), totaling \$402,919 fell short of budget projections by 13% and declined 6% from the prior month.
- March local use tax revenue totaling \$877,164 exceeded budget projections by an astonishing 91%, increasing 41% from the prior month. This is the largest use tax receipt the City has ever received and serves as an indication that online sales surged this past holiday season. It is anticipated this revenue will decline in April as revenue shifts to the sales tax category.

March State Collected Revenues

Revenue	Projection (\$)	Actual (\$)	Difference (\$)	Difference (%)
Sales Tax	3,160,660	3,275,510	114,850	3.6
State Income Tax	772,079	1,139,133	367,054	47.5
Home Rule Sales Tax	1,448,253	1,215,262	(232,991)	(16.1)
Motor Fuel Tax/TRF	462,595	402,919	(59,676)	(12.9)
Local Use Tax	458,130	877,164	419,034	91.5
Totals	6,301,716	6,909,988	608,272	9.7

The combined state collected revenues are exceeding budget projections by 6.9% year-to-date. The outperformance of sales tax, income tax, and local use tax, which are all General Fund revenues, continue to drive the positive revenue trends. HRST and MFT continue to lag when compared to projections.

That said, the outperformance in General Fund revenues is allowing for all HRST dollars to remain in capital and debt service funds through the first quarter of 2021. Council approved the diversion of \$6.25 million of HRST to the General Fund for 2021; however, through March, \$0 has been allocated to the General Fund. If sales, income, and use taxes maintain current trends, the diversion of HRST to the General Fund may be unnecessary in 2021. Staff will continue to monitor and report on these trends.

YTD State Collected Revenues through March

Revenue	Projection (\$)	Actual (\$)	Difference (\$)	Difference (%)
Sales Tax	8,663,804	9,029,386	365,582	4.2
State Income Tax	3,337,634	4,355,359	1,017,725	30.5
Home Rule Sales Tax	3,935,061	3,345,262	(589,799)	(15.0)
Motor Fuel Tax/TRF	1,453,428	1,319,051	(134,377)	(9.2)
Local Use Tax	1,439,978	2,082,097	642,119	44.6
Totals	18,829,906	20,131,155	1,301,249	6.9

- 2. Locally Collected Revenues:** The table below details taxable sales reported on returns submitted to the City and not the actual tax revenue received. Taxable sales provide a clearer picture of economic trends as the receipt of actual revenue can be delayed at times. Returns submitted in March are for February sales. The table includes the final quarter of 2020 as a point of reference.

The numbers show food and beverage sales increased 8% from January. The City did see a slight increase in January receipts through some late filings. Sales for January were initially reported at \$26.01 million last month but increased to \$26.15 million. February sales reported to date are \$27.72 million. This category is expected to improve in the coming months, as indoor dining restrictions ease and the weather allows for a more comfortable outdoor dining experience.

Local gas sales dipped slightly from the revised January sales total. Current February receipts totaled \$4.10 million, which was a 3% decline from January's revised filings of \$4.23 million.

March marked the conclusion of the first fiscal quarter of the year, which means hotel and motel taxes will be filed in late April. Currently, the only returns on file for hotel and motel taxes are from a small number of businesses that report monthly. Those filings totaled \$388,000 in January and February.

Real estate sales experienced their first significant monthly decline in February with \$75 million in sales reported. This is nearly half the activity reported in January. While down sharply, total sales were still 12% higher than the same period last year.

Month	Food & Beverage	Hotel/Motel	Local Gas	Real Estate
October	31.80	4.39	4.60	191.77
November	24.28	0.20	3.78	133.49
December	28.22	4.39	3.76	148.18
January	26.15	0.18	4.23	144.86
February	27.72	0.20	4.10	75.03
YTD Totals	54.27	0.39	8.34	332.40
\$ in millions				

First Quarter Budget Review (January - March)

Through the first quarter of the year, the City's financials are showing positive trends in both revenues and expenses. Citywide revenues totaled \$97.88 million through the first quarter, which is a 0.9% increase over last year.

The General Fund finished the first quarter with \$26.55 million in recorded revenues. After removing anticipated increases tied to inter-fund transfers, the General Fund revenues are up 4.3% from last year and outpacing projections by \$2.67 million. Much of the increase is better-than-expected state shared tax revenues, which totaled \$15.56 million, 3.5% more than 2020. The City's portion of the state income and local use taxes make up the bulk of the increase, as both are up \$1.14 million over the first quarter of 2020. Utility taxes are also outpacing last year with \$4.00 million recorded, which is in line with current year budget projections. Natural gas taxes are up \$577,000, while telephone charges dropped \$306,000.

Real estate transfer taxes are also up \$467,000 over 2020 and exceeded projections by 37.6%. The increase offset losses in hotel/motel tax revenues, which are down 76.8%. The City is also seeing an increase in business licenses, which totaled \$447,000. Liquor license renewals generated \$411,000, which is a \$182,000 increase from last year.

Both utilities are off to solid starts to the year with electric charges totaling \$36.56 million, a 1.4% increase from last year. Retail and customer charges are both tracking nearly identical to 2020. Demand charge revenue is down 10%, but it has been offset by the Purchased Price Adjustment (PPA), which totaled \$1.61 million. The increased PPA accounts for the 1.4% increase.

Water and wastewater charges totaled \$15.59 million, a 6% increase. All revenues are tracking above 2020, with wholesale charges (\$4.94 million) and retail rate revenue (\$2.59 million) accounting for most of the increase. The increased revenues are tracking with projections based on the programmed rate increases that began on January 1, 2021.

Citywide expenses totaled \$80.69 million in the first quarter, a 10% decrease from 2020. This decrease is attributable to lower spend in capital and insurance-related accounts. Salaries and benefits account for 46% of expenses, totaling \$36.93 million. Salaries and wages are up 2.5% from 2020, which is in line with the overall increases planned in the 2021 budget. Benefits and related expenses are also up 1.6% over last year, totaling \$7.83 million. The City also saw an increase in grants and contribution expenses, which totaled \$2.14 million, more than twice the 2020 output. The increase is tied to the assistance programs the City is managing for small businesses and utility payments. Operating services and supplies are down 2% from last year, totaling \$9.81 million.

Purchased electricity expenses totaled \$26.64 million through the first quarter, which is a 6.2% increase over 2020. Purchased water bills are also up 3.1% from last year and total \$5.50 million for the first quarter. The increased consumption ties to the increased revenues both utilities experienced through March.

Operating services and supplies are down 2% from last year, totaling \$9.81 million. The City finished the quarter with \$3.05 million in capital expenses, a 35% decrease from 2020. Capital expenses will likely level out in the coming months as construction season begins. Insurance benefit expenses, which totaled \$4.34 million through March, are nearly 30% less than last year. Medical claims under the HMO and PPO plans are both 30% lower than the same period in 2020, while dental and prescription drug expenses are more in line over that same period. Lower medical expenses may be the result of generally favorable health experiences among plan members or the timing of invoice payments. Staff typically monitors for trends over a longer period and expenses may normalize throughout the year.

Local Economic Support

The Temporary Utility Assistance Program has been available to utility customers for eight full weeks. Requests for assistance continue to be fewer than anticipated, particularly in the small business category. During the first week in March, the City mailed 780 letters to residential and commercial customers eligible for service disconnection for unpaid balances, a process that will resume in May. Subsequently, staff saw an increase in requests for payment plans and a slight increase in requests for residential grant assistance; however, small business grant assistance requests continue to be limited to just one or two per week. For now, it appears funds will remain available once the disconnection process resumes.

Below is a summary of program activity through April 9.

Program	Customers Approved	Amount Disbursed	Funds Remaining
Residential	105	\$27,876	\$242,124
Small Business	50	\$44,972	\$155,028
Total	155	\$72,848	\$397,152

Next Steps

Staff will continue bringing monthly reports before the Council at the second meeting of each month. These reports will focus on the state of economic recovery and include relevant topics for discussion, such as areas of current or future years' budgets that require additional attention as information becomes available.

In May, staff plans to bring forth additional information related to the American Rescue Plan Act. As of the publication of this report, no additional guidance on the use of stimulus funds has been provided by the federal government. The U.S. Treasury is in the process of finalizing individual state and local government allocations for disbursement in May. Once allocations are finalized, staff expects to receive additional guidance that will inform Council discussions on this topic.

FISCAL IMPACT:

N/A