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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the June 2021 Financial Report

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

The monthly financial report, developed in response to the COVID-19 pandemic, provides timely information and data related to the City's financial position and the local economy. As the state moves closer to Phase 5 of the Restore Illinois Plan, monthly reporting will become less focused on the month-to-month performance of revenue indicators and more focused on broader financial discussions around the short- and long-term health of the City's financial position.

DISCUSSION:

Economic Indicators

As public health metrics continue to improve, short-term events are having less impact on the local economy and City finances than they did in 2020. The move to the Bridge Phase on June 1, and the possible move to Phase 5 as early as June 11, are widely seen as the next step to economic stabilization.

City staff continues to monitor various revenue streams, particularly those that are more economically sensitive; however, as the economy stabilizes, reporting will focus more on long-term trends than month-to-month variations in revenue streams.

State Collected Revenues: Revenues collected by the state continue to exceed expectations, with the five revenues below exceeding budget projections by 9.2% in May. State sales tax, with the addition of online sales tax revenue, and state income tax continue to be strong. Sales tax outperformed projections by 10.4%, and that does not include revenue from one of the largest e-commerce retailers which was held for review with the Illinois Department of Revenue (IDOR). Once validated, that revenue could add nearly 2% to the monthly sales tax total. That hold also impacts May HRST, which outperformed budget projections for the first time since the beginning of 2021.

May State Collected Revenues

Revenue	Projection (\$)	Actual (\$)	Difference (\$)	Difference (%)
Sales Tax	2,281,783	2,519,750	237,967	10.4%
State Income Tax	2,159,000	2,481,137	322,137	14.9%
Home Rule Sales Tax	931,715	953,384	21,669	2.3%
Motor Fuel Tax/TRF	463,469	485,740	22,271	4.8%
Local Use Tax	411,215	383,472	(27,743)	-6.7%
Totals	6,247,182	6,823,483	576,301	9.2%

In total, state collected revenues exceed budget projections by 8.2% through May. On June 1, the Illinois General Assembly approved a state budget that maintained current funding levels for the Local Government Distributive Fund (LGDF), which was proposed to be cut by 10% originally. Based on this development, year-to-date collections and current trends in sales, income and use taxes, it is becoming increasingly likely that no home rule sales tax dollars will be diverted to the General Fund in 2021.

YTD State Collected Revenues through May

Revenue	Projection (\$)	Actual (\$)	Difference (\$)	Difference (%)
Sales Tax	13,298,045	14,245,439	947,394	7.1%
State Income Tax	6,800,930	8,652,833	1,851,903	27.2%
Home Rule Sales Tax	5,874,529	5,304,430	(570,100)	-9.7%
Motor Fuel Tax/TRF	2,349,006	2,222,266	(126,740)	-5.4%
Local Use Tax	2,469,222	2,895,628	426,407	17.3%
Totals	30,791,731	33,320,596	2,528,865	8.2%

Locally Collected Revenues: Taxable sales data for the four locally collected revenues continued to show some strength in April. Food and beverage had another strong month with total reported sales exceeding \$36 million for the second month in a row. Local gas sales also improved by more than 6%. While real estate sales declined slightly from the prior month, sales remained strong at nearly \$128 million with early indicators showing improvement in May.

Monthly Taxable Sales through April

Month	Food & Beverage	Hotel/Motel	Local Gas	Real Estate
January	26.24	0.27	4.23	145.21
February	28.12	0.47	4.10	75.03
March	37.24	5.01	4.04	153.87

April	36.44	0.30	4.30	127.81
YTD Totals	128.03	6.05	16.67	501.93
\$ in millions				

Financial Response to the Pandemic

As we enter Phase 5 of the Restore Illinois plan and look towards the post-pandemic economy, staff is reviewing the strategies that served Naperville well financially over the past 15 months to evaluate those that could best serve the City in the 2022 budget and beyond.

In the early months of the pandemic, broad speculation existed as to the potential impact to City finances. Staff developed a plan to present City Council with the most current information and data monthly. This plan ensured that any financial decisions made in response to the pandemic were properly timed and based on the best available information. Through these monthly discussions with Council, and conversations with the Financial Advisory Board, the theme of *flexibility* emerged. Under the premise of financial flexibility, the City took the following actions in 2020:

- Reduced the 2020 Capital Improvement Program (CIP) by nearly \$25 million
- Amended the municipal code to temporarily remove restrictions on the use of HRST and Food & Beverage Tax revenues
- Increased debt issuance to preserve cash in the Capital Projects Fund and refinanced three existing debt issuances to reduce long-term interest costs

This theme of flexibility carried through the 2021 budget process. Understanding the significant number of unknowns that existed last fall, staff offered a budget that included highly conservative revenue projections for 2021. Through this approach, staff sought to avoid a situation in which the City could not meet its revenue targets should the pandemic persist. Along those lines, Council approved the use of \$6.25 million in HRST revenue to support ongoing operations in the General Fund, which allowed for full funding of existing services and the addition of six full-time employees: four police officers, one police social worker, and one sustainability coordinator.

2020-21 Budgetary Outcomes

Through this flexible approach, the City maintained existing service levels, enhanced certain services to accommodate ever changing needs created by the pandemic and continued making investments in capital infrastructure in 2020. All of this was accomplished without dipping into General Fund cash reserves. In fact, by year-end, the City had realized a revenue surplus of nearly \$2 million. Combine that with expenses being nearly \$2 million under budget, and the City added approximately \$4 million to the General Fund cash balance in 2020, which totaled \$30.5 million as of December 31. CARES Act funding provided significant support in 2020; however, we now know that the City would have avoided significant financial harm even without that assistance.

This approach to financial planning has positioned the City well from a service level perspective; whereas other organizations may spend significant time rebuilding their service approach as we enter the post-pandemic economy, Naperville is well positioned to move forward.

Already in 2021, the City's cautious approach to budgeting during the pandemic is paying off. Over the first five months of 2021, key revenues have performed far better than our conservative expectations. At this point, it appears that we have achieved a level of economic stability that will support General Fund operations through our traditional revenue mix, and HRST is not likely to be

diverted to the General Fund in 2021. That said, staff will continue to closely monitor for any signs that economic conditions are regressing.

Looking Ahead to 2022

As we approach the mid-point of 2021, staff is beginning to look toward the 2022 budget planning process, which involves each City department evaluating needs for the coming year based on existing priorities and new policy direction provided by Council. After developing their operating budget and Capital Improvement Program (CIP), each department will engage in two levels of review, one with Finance staff and a second with the City Manager's Office. Once review is complete, the tentative Annual Budget & CIP is published and presented to City Council for review in October. That review includes a series of City Council workshops, during which staff will present budget highlights and receive feedback from Council. The budget is then revised, as needed, before it is brought to Council for final approval.

This process typically follows the below general timeline to ensure the budget and property tax levy are adopted according to statutory guidelines.

Month	Activity	Responsible
July	Preparation of Financial Data	Finance
August	Initial Budget & CIP Development	All Departments
September	Department Budget Review	Finance
Sept - Oct	Department Budget Review	CMO
October	Tentative Budget Publication	Finance
Oct - Nov	Budget Workshops	City Council/Staff
November	Property Tax Levy Estimate	Finance
December	Budget & Tax Levy Approval	City Council

Key Considerations

While mostly positive news has been portrayed in recent financial reports, staff continues to keep a watchful eye on national, state and local economic trends. While the worst of the pandemic appears to be behind us, some economists suggest that longer-term issues around supply chains and inflation may persist. While notable cost increases have not yet been realized in our operating or capital expenditures, staff is monitoring for any trends that signal otherwise.

As trends continue to improve and we move towards economic normalcy, the conservative, flexible approach to finances that served us well throughout the pandemic is one strategy staff recommends continuing into 2022. While use of the \$6.25 million in HRST that balanced the 2021 budget is likely not needed, recent gains in General Fund revenues are simply replacing those dollars and returning the City to a pre-pandemic (2019) footing. These gains do not signal significant revenue growth above and beyond pre-pandemic baselines. As such, continued mindfulness of revenue support for services is critical. A significant process internally to vet requests for additional personnel, programs and services will be utilized throughout the budget planning process.

The City Council plays a key role early in the budget process by establishing clear priorities which staff can use to develop a budget that supports those priorities. As noted in last month's report, the strategic planning and 2022 budget development processes overlap this year. While the strategic

plan will not be finalized by the time the draft Annual Budget & CIP is released, this summer's strategic plan discussions provide an early opportunity for assessing Council priorities that may have a budgetary impact in 2022 and beyond. Staff will be utilizing these initial strategic plan discussions as it begins budget development.

Next Steps

In July, staff will provide a review of the 2021 budget through the first six months of the year. That six-month budget review will provide an update on revenues and expenditures across all City funds and relevant updates on the 2021 capital program. Monthly financial reports will continue through September in preparation for budget workshops beginning in October.

FISCAL IMPACT:

N/A