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Title: Receive the 2023 2nd Quarter Financial Report and 2024 Budget Preview

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Attachments: 1. 2023 - YTD Budget Report through June 30,2023

Date	Ver.	Action By	Action	Result
7/18/2023	1	City Council	received	Pass

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the 2023 2nd Quarter Financial Report and 2024 Budget Preview

DEPARTMENT: Finance Department

SUBMITTED BY: Raymond Munch, Deputy Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

The City's Budget Team regularly monitors revenues and expenditures to identify trends that may positively or negatively impact the annual budget and Capital Improvement Program (CIP). Regular financial reporting helps to inform the City Council and the public on important issues related to City finances, including discussions around short- and long-term financial strategies. This month's report focuses on the performance of the City budget through the second quarter (Q2) of 2023.

DISCUSSION:

Due to the size and complexity of the budget, revenues and expenditures are summarized in the tables below according to three major fund categories.

- **Maintenance & Operating Funds** - Responsible for funding core City's services, such as public safety, public works, utilities, and support services. This also includes the City's self-insurance fund.
- **Capital & Debt Service Funds** - Responsible for funding current and future capital projects and debt service on past capital projects.
- **Special Funds** - Responsible for funding special purposes not traditionally considered the City's core services, such as the Library, Naper Settlement, and Special Events & Community

Arts.

Staff measures year-to-date revenues and expenditures against three milestones: the full-year budget, a monthly projection based on five years of budget history, and the prior year's year-to-date actual. These three measures allow for the budget to be analyzed against a single point in time (last year) and a longer time.

Through the year's second quarter, actual budget performance aligns with expectations in most areas. While some revenues and expenses are not in line with expectations, those differences have been compensated for in other others of the budget. A detailed report by individual funds is included with this report as an attachment and major revenue and expenditures are highlighted below.

Revenues

Across all funds, revenues through Q2 total \$236.08 million, which is 5.3% lower than projected through the year's first half. On a year-over-year basis, 2023 revenue is 0.6% higher than the same period last year, excluding bond issuance proceeds.

Revenue by Fund Category

	2023 Budget	YTD Actual	% of Total Budget	YTD Projection	% of YTD Projection	2022 YTD Actual	Variance to 2022 (%)
Maintenance & Operating	\$435.06	\$195.56	44.9%	\$204.01	95.9%	\$201.21	-2.8%
Capital & Debt Service	\$116.32	\$21.98	18.9%	\$26.34	83.5%	\$22.21	-1.0%
Special Funds	\$37.72	\$18.54	49.2%	\$ 18.93	98.0%	\$18.55	0.0%

\$ in millions

While revenues in total are lower than expected through Q2, some of that variance is attributable to one-time revenue sources, such as contributions towards capital projects, whose timing is difficult to predict. Major revenue sources supporting core services continue to perform very well in most areas. General Fund revenues are 3.9% higher than projected, and Water Utilities revenue aligns with expectations. Electric Utility revenue is coming in 11.6% less than projected; however, lower revenue correlates to lower purchased power costs. The performance of individual revenues within these funds varies; we have highlighted those below.

State Shared Revenues

- State income tax of \$13.11 million exceeds budgeted projections and is up by 9.2%. However, this fell short of 2022 revenue by 7.5%. These numbers align with recently revised forecasts provided by the Illinois Municipal League.
- State sales tax at \$22.57 million exceeded projections by 2.2% and is 4.4% higher than in 2022. Home rule sales tax at \$9.89 million exceeded projections by 12.1% and is 4.0% higher than 2022 year-to-date.
- State motor fuel taxes at \$3.39 million exceeded projections by 5.3% and were 17.6% higher than in 2022 due to the end of the six-month state fuel tax suspension on January 1.

Local Taxes

- Property tax revenue of \$29.50 million is in line with expectations.

- Real estate transfer tax continues to underperform at \$1.98 million, 20% below projections and 40% off record highs in 2022. This is due to lower sales volume, particularly in the commercial category. Sales volume has declined with higher interest rates.
- Hotel/Motel tax revenue of \$1.49 million is 2% lower than projected yet remains 19% higher than in 2022.
- Food and beverage tax revenue of \$3.4 million exceeds projections by 3.6% and is 5.2% higher than in 2022.

Utility Charges

- Electric charges total \$66.14 million, 11.9% lower than projections and 1.7% lower than 2022. Those charges are budgeted according to rate study assumptions and came in below budget in 2022 as well.
- Water charges total \$21.92 million, 4.7% higher than projections and 11.3% above 2022 revenues. The higher revenue is driven by drought conditions that emerged in the spring and early summer.
- Wastewater charges total \$13.24 million, 9.6% below projections and 6% higher than 2022 revenues. Staff has determined that residential wastewater fees were over-estimated in the budget, which explains the variance between the current year projection and prior year actuals.

Other Revenues

- Ambulance fees at \$4.82 million continue to exceed projections. The total is currently 38% above projections and is 26.4% higher than in 2022. This may be attributable to the timing of payments and open bills as the City switches billing providers.
- Building permit revenue totals \$468,000 through Q2, 21.5% below projections and 32.2% less than in 2022. Residential new home permits were particularly weak; however, the timing of permit applications for new subdivisions is the primary driver. Permit activity is expected to increase later in the year as Polo Club is developed.
- Commuter parking fees are seeing some recovery in the first half of 2022. At \$578,000, fees are 10.4% higher than projected and 14.2% higher than 2022. Daily fee parking accounts for more than half of that revenue.

Expenditures

Expenditures across all funds total \$207.56 million. Total costs are 17.5% below the Q2 budget projection but have increased 5.1% from 2022. Spending in all three major operating funds (General, Electric, and Water funds) is at or below projections through Q2.

Expenditures by Fund Category

	2023 Budget	YTD Actual	% of Total Budget	YTD Projection	% of YTD Projection	2022 YTD Actual	Variance to 2022
Maintenance & Operating	\$429.99	\$173.71	40.4%	\$188.64	92.1%	\$170.25	2.0%
Capital & Debt Service	\$135.77	\$17.97	13.2%	\$46.03	39.0%	\$12.78	40.6%
Special Funds	\$38.20	\$15.88	41.6%	\$16.89	94.1%	\$14.51	9.5%

\$ in millions

Below are some key factors tied to Q2 expenditure performance.

Personnel Costs

- Regular salaries and wages at \$51.25 million are 1.9% less than projected due to staff vacancies. Fire, Police, and Public Works are trending slightly over budget in this category, while most support services departments are trending below budget.
- Overtime pay remains substantially lower than expected, down 9.1% from 2022. This results from savings in Public Works due to a mild winter, meaning fewer responses to inclement winter weather. Fire Department overtime is 24% higher than expected but still 9% lower than last year as the department works to fill vacancies.
- Insurance benefits for healthcare and other related coverages are 12% lower than projected through Q2 but 5.4% higher than in 2022. The PPO health and pharmaceutical plans have seen expenses well below projections, while HMO, HSA, and dental plans align with projections.
- Workers' compensation expenses at \$515,000 are 52.5% lower than last year and trending nearly 40% below budget through Q2.

Purchased Services

- Several areas in this category are trending over budget, including administrative service fees, other professional services, and software/hardware maintenance; however, spending for purchased services in total remains 30% lower than projected through Q2.
- Architect and engineering services are well below budget at \$1.15 million through Q2. Expenses have increased significantly compared to Q1 but are still well below projections.
- Operational services at \$2.43 million are 22.5% below projections and 6.5% lower than in 2022. This is mainly due to savings in contracted snow removal in Q1.

Purchased Items

- Purchased electricity for resale to customers at \$46.74 million is 6.5% lower than in 2022, which aligns with the lower-than-expected electric revenue.
- Purchased water for resale at \$13.04 million is 8.8% higher than in 2022. Due to drought conditions, water sales in June were particularly high compared to recent years.
- Other purchased items remain 7% below projections but are 9.2% higher than in 2022. The Electric Utility has spent nearly 20% more than projected and 30% more than in 2022. The variances are primarily due to rising costs and supply chain issues disrupting normal buying patterns.

Capital Outlay

- Infrastructure projects account for the most significant portion of capital project spending. A total of \$15.0 million has been spent through Q2, which is only 42% of projections but 18% higher than last year. Major construction spending is expected to accelerate in Q3 but will remain well under budget for the year as staff noted in Q1 that several major projects will be delayed until 2024.
- Building improvement projects are performing closer to expectations. Spending through Q2 is \$3.1 million, which is about 30% less than expected but 56% higher than last year.
- Spending on vehicles and equipment is about 77% higher than expected through Q2 due to 2022 replacements being received in 2023. That said, current-year replacement delays are expected to mitigate those increases.

2024 Budget Preview

The six-month financial report provides a snapshot of where the City stands financially as the formal 2024 budget development process begins. Beginning next month, staff will hold regular discussions with Council on the concepts behind both the capital and operational budgets prior to the publication of the preliminary budget and discussion of those numbers later this fall.

FISCAL IMPACT:

N/A