



Legislation Text

File #: 23-0301, Version: 1

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the Preliminary 2022 Year-End Financial Report

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

This first financial report of the year provides a preliminary, unaudited review of the City's 2022 budget performance. The report provides a high-level overview of the budget and details areas where revenues and expenses outperformed or did not meet expectations.

The report summarizes actual revenues and expenditures recorded through December 31, 2022. These are preliminary, unaudited numbers and will change as the City continues to pay final 2022 invoices and finalizes year-end accounting entries in preparation for the annual financial audit beginning this month.

DISCUSSION:

In 2022, the City continued to navigate the long-term effects of the pandemic on the broader economy. High inflation, continued supply chain delays, and a tight labor market created challenging economic conditions across the United States. For example, in the first half of the year, consumers experienced record-high prices for food, energy, and housing, among other things. In response, the U.S. Federal Reserve began aggressively increasing interest rates, which fueled discussion on an impending recession.

From a financial perspective, the City weathered this uncertainty well throughout 2022. Most general revenue streams produced solid returns, and the impacts of inflation on the City's budget were limited because most expenses, such as personnel costs, are relatively fixed. In addition, while some capital costs rose, several internal and external factors made it difficult to execute the full scope of the planned 2022 capital program, thus offsetting cost increases.

Summary by Fund

Across all funds, total revenues exceeded total expenditures by \$20.6 million. Two of the City's three primary operating funds - the General Fund and Water Utility Fund - realized revenues above expenses. The Electric Utility Fund, however, saw revenues come in below projections and ended the year with expenses exceeding revenues by \$5.9 million. That loss was partly due to \$2.8 million

in unrealized losses in the City's investment portfolio that were shared among all budget funds in the investment pool.

	Revenues	Expenditures	Margin
Maintenance & Operating			
Commuter Parking Fund	0.98	1.05	(0.07)
Electric Utility Fund	141.21	147.13	(5.92)
General Fund	147.95	133.91	14.04
Self Insurance Fund	25.63	18.27	7.36
Solid Waste Fund	7.20	7.33	(0.13)
Water Utilities Fund	75.46	73.57	1.89
Capital & Debt Service			
Bond Fund	-	3.83	(3.83)
Capital Projects Fund	16.34	15.91	0.43
Debt Service Fund	10.78	11.72	(0.94)
Downtown Parking Fund	1.28	0.54	0.74
Motor Fuel Tax Fund	9.40	6.61	2.78
Phosphorus Fund	(0.11)	-	(0.11)
Road and Bridge Fund	2.84	0.73	2.11
SSA Funds	0.21	0.48	(0.27)
Water Street TIF Fund	0.61	0.62	(0.01)
Water Capital Fund	18.62	18.12	0.50
Special Funds			
Comm. Dev. Block Grant Fund	0.64	0.45	0.19
Drug Forfeiture Funds	0.16	0.11	0.05
E911/ETSB Funds	6.43	5.53	0.90
Food and Beverage Fund	5.65	5.86	(0.21)
Foreign Fire Tax Fund	-	0.29	(0.29)
Library Funds	17.02	16.16	0.89
Naper Settlement Fund	4.37	4.12	0.22
Renewable Energy Fund	0.24	0.45	(0.21)
SSA #33 - Downtown Maint. Fund	2.74	2.32	0.42
Test Track Fund	0.05	0.03	0.20
Grand Total	495.70	475.14	20.56

\$ in millions

Revenue Summary by Category

State Shared Revenues

State-shared revenues continued to outperform expectations in 2022 as a result of strength in the state and local economy

- State income tax at \$24.4 million exceeded budget by 33% and rose 25% from 2021.
- State sales tax at \$45.1 million exceeded budget projections by 8% and rose 5% over 2021.
- State motor fuel taxes at \$5.9 million fell short of budget projections by 4% and declined by 1% from 2021.

Local Taxes

Strength in the Naperville economy is evident when looking at revenues collected locally.

- Home rule sales taxes totaled \$20.2 million, exceeding projections by 25% and increasing 9% from 2021.
- Food and beverage taxes totaled \$6.7 million, exceeding budget projections by 28% and increasing 17% from 2021.
- Real estate transfer tax totaled \$6.6 million, exceeding budget projections by 33% but declining 11% from historically high 2021 revenue.
- Hotel/motel tax totaled \$3.2 million, exceeding budget projections by 34% and increasing 39% from 2021. Revenue was particularly strong in the second half of the year.
- Local gas tax totaled \$2.5 million, falling short of budget projections by 10% but increasing by 7% from 2021.

Service Charges

Service charges, including electric, water, and wastewater, account for almost 50% of the total revenues at \$230.7 million.

- Electric charges totaled \$141.7 million and fell short of budget projections by 11%, and were 5% less than 2021 revenue. This was primarily due to the Purchased Power Adjust charge being a credit to customers for much of the year.
- Water charges aligned with budget projections at \$45.1 million and were essentially flat to 2021 revenue.
- Wastewater charges fell short of budget projection by 12% at \$25.6 million, increasing by 3% from 2021.
- Ambulance fees totaled \$7.3 million and exceeded budget projections by 23%; however, these fees declined 16% from 2021.

Other Revenues

- Interest and investment income combined for a negative return of -\$13.7 million in 2022 due to poor performance in fixed-income markets.
- Natural gas utility tax increased significantly due to rising gas prices and totaled \$5.8 million, 40% more than budget projections and 35% higher than 2021.
- Commuter parking revenue recovered slightly in 2022, with total revenue for the fund at \$987,000, or 90% of budget projections. This includes permits, daily parking fees, and parking ticket revenue.

Expenditure Summary by Category

Salaries, Wages, and Benefits

Across all funds, salaries and wages were in line with the budget at \$108 million. Regular pay totaling \$97.8 million ended the year 2% under budget but was offset by higher overtime and historic vacancy

factors not being met.

- General Fund salaries and wages ended the year 2% over budget. The historical vacancy factor was unmet due to payouts of leave time at retirement/separation and retroactive pay related to union contract settlements.
- Electric Fund salaries and wages ended the year 5% under budget, with regular pay 12% under budget and overtime in line with budget.
- Water Fund salaries and wages were nearly 3% over budget for 2022. While regular pay was in line with budget, the utility saw overtime exceed budget by 8% due to staff turnover and after-hours service interruptions. In addition, the historic vacancy factor was not met due to retroactive pay related to a contract settlement.

Benefits associated with payroll, including pension contributions, payroll taxes, and employer insurance contributions, were all in line with the budget at 99% of projections.

- Pension benefits totaled \$24.4 million, or 102% of the budget. In addition, fire pension contributions totaled \$10.8 million, and police pension contributions totaled \$8.3 million, exceeding actuarially required amounts due to higher food and beverage tax contributions.
- Employer insurance contributions for health, dental, workers' compensation, and life insurance benefits were slightly under budget at \$17.2 million, or 96% of the budget.

Healthcare

The City's health and dental insurance plans performed well in 2022, with both programs under budget. Some of the savings on the health insurance plan are attributable to employees choosing more cost-effective plans for the City.

- Claims related to the HMO and PPO plans totaled \$10.4 million, which was \$1.4 million under budget projections. In addition, administration costs for the health plans totaled \$2.6 million, which was \$1.13 million under budget.
- Dental insurance claims finished the year \$220,000 under budget.
- Savings in health and dental plans were partially offset by increased costs in the prescription drug program, which finished the year \$142,000 over budget.

Purchased Items

This expenditure category includes all items purchased from third-party vendors, including purchased electricity and water. In total, purchased items remained under budget despite inflation.

- Purchased electricity from the Illinois Municipal Electric Agency totaled \$109 million, or 94% of the budget. This aligns with electric charges revenue being below budget.
- Purchased water from the DuPage Water Commission totaled \$29.2 million, 11% more than budgeted and a 7% increase from 2021.
- Other purchased items totaling \$22.1 million were in line with budget but 17% higher than 2021. Significant increases were seen in fuel and natural gas but were offset by salt and equipment parts being under budget.

Purchased Services

Expenses related to services provided by third parties ended the year 17% under budget at \$36.7 million.

- Architect and engineering services related to deferred capital projects were the primary reason for coming in under budget. Total expenses were 60% under budget at \$2.4 million.

- Administrative service fees, primarily related to credit card processing, were over budget by 10% at \$2.3 million due to more revenues being collected electronically.

Capital Outlay

Expenditures related to the capital improvement program totaled \$56.9 million, which is 58% of the budget. However, spending ended the year well below projections as several major projects were delayed or deferred.

- The Electric and Water utilities executed their capital programs most closely to budget at 89% and 72%, respectively.
- Transportation, Engineering, and Development experienced the most significant challenges in 2022 and spent only 39% of their capital outlay budget. Significant factors included the quarry strike that delayed road improvements, as well as delays on complex projects, like the North Aurora Road underpass projects and the Washington St. Bridge. Those two projects alone represent more than \$20 million in the CIP budget.
- Vehicle purchases were also constrained by supply chain issues and only 55% of the 2022 vehicle replacement budget was spent.

2023 Economic Outlook - Early Indicators

Early indications in 2023 are that the local and state economy is maintaining some resiliency and talk of an economic slowdown is not yet having an impact on City revenues.

At the state level, the Illinois Municipal League has issued revised 2023 revenue forecasts that include increases to state income tax and use tax. They've also issued revised guidance indicating potential declines in motor fuel and cannabis taxes. Locally, we continue to see revenues meeting or exceeding expectations across several categories, including state and home rule sales tax. Food and beverage tax continued to outperform in recent months on a year-over-year basis. Even real estate transfer taxes remained resilient in recent months despite higher interest rates.

Despite strong revenues, the City continues to navigate a very challenging environment defined by higher costs and tight supply chains. Procurement staff is consistently seeing vendors request double-digit percentage increases on contracts. In some instances, vendors are not submitting bids over concerns they cannot guarantee pricing for 12 months. Some specific examples of current challenges include:

- The City recently rejected option year renewals and went out to bid for contract lawn mowing services because the requested increases were not reasonable.
- Electric transform costs are increasing 16% year-over-year with lead times for delivery well over one year.
- Water main replacement costs are nearly 50% higher than in 2021 on a cost-per-foot basis.
- A primary payment card processor notified the City of a 10% increase in fees.

The labor market also continues to present challenges. Staff retirements and other turnover continue, and the recruitment market remains very competitive making it more challenging and more costly to fill vacancies.

Staff will continue to monitor economic conditions to determine the budgetary impact. Budget reports will be presented to City Council quarterly in 2023, with other items of financial interest brought forth as needed.

FISCAL IMPACT:
N/A