



Legislation Text

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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the 2023 3rd Quarter Financial Report

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, 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 third quarter (Q3) 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 Q3, actual budget performance meets or exceeds expectations in most areas. While some revenues and expenses are not in line with expectations, those differences have been compensated for in areas of the budget. The one significant exception is in the Electric Utility Fund, which is experiencing revenue well below budget forecasts. This will be discussed later. 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 Q3 total \$381.13 million, which is 4.5% lower than projected. On a year-over-year basis, 2023 revenue is 0.7% higher than last year through Q3, 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	\$308.99	71.0%	\$326.08	94.8%	\$317.96	-2.8%
Capital & Debt Service	\$116.32	\$35.18	30.2%	\$41.16	85.5%	\$36.65	-4.0%
Special Funds	\$37.72	\$36.95	98.0%	\$31.85	116%	\$31.35	17.9%

General Fund revenues at \$121.43 million are 3.6% higher than projected through Q3 and nearly identical to the prior year. Water Utilities revenue at \$54.78 million is 2.6% lower than projected; however, a miscalculation in the projected residential wastewater charges is primarily responsible for that variance. Water revenue in total is 4.4% higher year-over-year. The Electric Utility continues to be a laggard with revenue of \$106.76 million, which is 13.9% less than projected due to lower-than-expected energy use. Total electric revenue is down 4.1% year-over-year. The performance of individual revenues within these funds varies; we have highlighted those below.

State Shared Revenues

- State income tax of \$18.18 million exceeds budgeted projections by 7.1% but is down 4.6% over 2022.
- State sales tax at \$33.58 million exceeds projections by 2.5% and is 2.5% higher than in 2022.
- State motor fuel taxes at \$5.03 million exceeded projections by 3.9% and were 15% higher than in 2022 due to the end of the six-month state fuel tax suspension on January 1.

Local Taxes

- Real estate transfer tax continues to underperform at \$3.17 million, which is 20.9% below projections and 40.6% off record highs in 2022.
- Hotel/Motel tax revenue of \$2.49 million is in line with expectations through Q3 and 14.7% higher year-over-year.
- Food and beverage tax revenue of \$5.29 million exceeds projections by 4.7% and is 6.9% higher than in 2022.
- Local gasoline tax revenue of \$1.82 million is in line with budgeted expectations but down 1.7% year-over-year.

Utility Charges

- Electric charges total \$102.91 million through Q3, 15.8% lower than budgeted projections and 6% lower year-over-year.
 - As has been discussed during 2024 budget workshops, electric energy use is down, and this is leading to actual revenues coming well below rate study assumptions.
- Water charges total \$36.33 million, 1.9% higher than budget projections and 5.3% above 2022 revenues.
- Wastewater charges total \$19.71 million, which is 9.8% below budget projections but 3.1% higher than 2022. Staff has determined that residential wastewater fees were overestimated in the budget, which explains the variance between the current year projection and prior year actuals.

Other Revenues

- Ambulance fees at \$7.16 million exceed the full year budget projection through Q3 and are 33% higher year-over-year.
- Building permit and related fee revenues total \$1.02 million through Q3, 18.6% below projections and 27.9% less than in 2022. However, engineering and entitlement fees of \$562,000 are nearly three times higher than budgeted.
- Commuter parking fees continue to gain some strength with revenue at \$863,000 through Q3, which is 16.8% higher than projected and 7.7% higher than 2022.

Expenditures

Expenditures across all funds total \$346.36 million. Total costs are 16.8% below the Q3 budget projection but have increased 6% from 2022. Spending in all three major operating funds (General, Electric, and Water funds) remains at or below projections through Q3.

Expenditures by Fund Category

	2023 Budget	YTD Actual	% of Total Budget	YTD Projection	% of YTD Projection	2022 YTD Actual	Variance to 2022 (%)
Maintenance & Operating	\$430.17	\$282.57	65.7%	\$305.36	92.5%	\$277.49	1.8%
Capital & Debt Service	\$135.77	\$36.38	26.8%	\$85.42	42.6%	\$26.10	39.4%
Special Funds	\$38.20	\$27.42	71.8%	\$25.72	106.6%	\$23.16	18.4%

\$ in millions

Below are some key factors tied to Q3 expenditure performance.

Personnel Costs

- Salaries and wages at \$81.83 million are 2.3% less than projected due to staff vacancies and lower-than-expected overtime costs. Expenditures are 1.4% higher year-over-year.
- Insurance benefits for healthcare and other related coverages total \$17.19 million through Q3, which is 12.3% lower than projected through Q3 but 3.3% 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.

Purchased Services

- Several areas in this category are trending over budget, including administrative service (credit card) fees, HR services for contract staffing, and software/hardware maintenance; however, spending for purchased services in total remains 27.1% lower than projected through Q3.
- Architect and engineering services remain well below budget at \$2.48 million through Q3, which is significantly higher than last year but still only about 25% of budgeted projections.
- Operational services at \$5.08 million are 10.9% below projections through Q3 but 10.4% higher than in 2022.

Purchased Items

- Purchased electricity for resale to customers at \$79.11 million is 10.5% lower than budget projections and 4.8% lower than in 2022, which aligns with the lower-than-expected electric revenue.
- Purchased water for resale at \$22.65 million is 2.3% higher than expected and 5.1% higher than in 2022. Water sales have normalized since seeing significantly high sales in May and June.
- Other purchased items at \$18.10 million are in line with budget but 18.1% higher than in 2022. This is primarily attributable to the higher cost of goods and the timing of purchases. The variances continue to be the result of rising costs and supply chain issues disrupting normal buying patterns.

Capital Outlay

- Infrastructure project expenditures totaling \$35.60 million are 44% higher year-over-year but remain at just 50% of planned expenditures.
- Building improvement projects are performing closer to expectations. Spending through Q3 is \$5.87 million, within 5% of budget projections. This is 85% higher than last year.
- Vehicles and equipment account for \$2.92 million in capital spending, which is about 23% less than expected through Q3. Some 2023 replacements are likely to be delayed until next year due to ongoing supply issues.

2024 Budget Development

Staff is in the final stages of developing the 2024 annual budget and capital improvement program. The trends observed through the first three quarters of 2023 provide valuable insight that will inform the 2024 budget. The proposed 2024 budget will be published on Friday, October 13, and presented to the City Council at a budget workshop on Tuesday, October 24.

FISCAL IMPACT:

N/A