



Memorandum

To: Honorable Mayor and Members of the City Council

From: Martin Lyons, Assistant City Manager/Chief Financial Officer
Ashley King, Budget & Finance Manager

CC: Wally Bobkiewicz, City Manager

Subject: Third Quarter Financial Report for Fiscal Year 2017

Date: November 13, 2017

Recommended Action:

Staff recommends City Council accept and place the Third Quarter Financial Report for FY 2017 on file.

Funding Source: N/A

Livability Benefit: Innovation & Process: Support local government best practices and processes.

Summary:

The City ended the third quarter of the 2017 fiscal year as projected during the 2nd quarter report to the City Council. The City's financial performance is the result of difficult decisions which were made over the summer when it was estimated that the City's General Fund Revenues for 2017 would be coming in well under budget. Additional information about the implementation of these changes is detailed below.

The chart below shows the Fund and Cash balance differences between the third quarter of 2016 and this third quarter 2017 report.

Balance Differences	Cash 2016	Fund Balance 2016	Cash 2017	Fund Balance 2017	Cash Difference	Fund Balance Difference
General Fund	9,442,294	15,983,933	8,595,629	14,723,355	(846,665)	(1,260,578)
Capital Fund	16,061,794	15,336,421	7,528,218	6,663,604	(8,533,576)	(8,672,817)
Parking Fund	13,113,893	13,565,633	7,746,262	8,125,005	(5,367,631)	(5,440,628)
Water Fund	8,323,248	11,443,368	7,139,598	9,512,235	(1,183,650)	(1,931,133)
Sewer Fund	3,234,833	5,353,331	3,083,449	5,388,516	(151,384)	35,185
All Other Funds	35,406,802	43,047,785	31,024,438	28,070,144	(4,382,364)	(14,977,641)
Total	85,582,864	104,730,471	65,117,594	72,482,859	(20,465,270)	(32,247,612)

Of this difference, the 2016 General Obligation bonds make up just over \$9million in the Capital Fund and \$3.7 million in the Water Fund. In total, \$13.7 million in bonds were received in September 2016; 2017 bonds were received in October and therefore not included in this report.

Parking Fund balance decreases are attributable to capital projects.

Approximately \$8.4 million of the decrease from 2016 to 2017 is attributable to housing programs being reclassified differently during the audit. In previous years, loans in these programs, even though classified as forgivable, were listed as assets. The City is no longer considering forgivable loans as assets. This affects the CDBG, CDBG Loan, HOME, and Affordable Housing Funds. The General Fund balance includes the combination of the Economic Development Fund into the General Fund, effective January 1, 2017.

These three factors explain over \$27 million in the differences in fund balances from 2016 to 2017.

Attached are summaries of the City's funds for the first quarter of FY 2017. In reviewing these reports, please note the following:

- A majority of the revenues are recorded at the time they are actually received (permits, property taxes, fees, etc.), however, some revenues are recorded at the time of notification of the revenue being earned by the City (sales, income, telecommunications taxes, etc).
- State revenue sources are delayed by one to three months based on the revenue source in question.
- While some revenues are received on a monthly basis, other revenues are received less uniformly throughout the year. An example is property taxes, which

are billed semi-annually and then distributed by the County as payments are received. This disbursal method contrasts with other revenue sources such as sales taxes, which are collected by the State and distributed on a monthly basis. The September financial report shows nearly 98% of property taxes being received by the City of Evanston. Staff does not anticipate significant additional property tax revenue.

- Operating expenses, including payroll, are reported at the time they are incurred during the year. At year-end, the City often receives invoices after the close of the year, for services used or items purchased during the year. These expenses are recorded into the previous year for which they were incurred.
- Operating expenses are incurred on a uniform basis for items such as payroll, utilities, fuel, etc., and on an as needed basis for supplies, equipment and specific outsourced services.

General Fund Revenues:

General Fund revenues through September 30, 2017 were \$87,484,657 or 73.65% of budget. The first quarter performance of major General Fund revenue sources is summarized below:

- Through September 30, 2017 property tax revenue was \$28,030,940 or 97.9% of budget. Financial reports include all Police and Firefighter Pension property taxes in the General Fund. These taxes are then transferred to the respective pension funds. This is one of the reasons that expenses for Police and Fire Departments are over the 75% goal for the month—98% of property taxes have been transferred (expensed) out of those departments into the Police and Fire Pension Funds.
- State income tax is \$5,494,805 through September 30, 2017, achieving 70% of the budget target for this revenue item. State income tax is typically received in arrears by one or two months.
- Sales tax revenue through the third quarter of FY 2017 was \$11,854,720 or 68% of budget. This is in line with the past two years of sales tax receipts for this quarter; typically sales tax has the highest collections in the fourth quarter.
- Real estate transfer tax through September 30, 2017 totaled \$2,664,677, achieving 86% of the budget target for this item.
- Through September 30, 2017, licenses, permits, and fees were approximately 24% of budget at \$719,768.

The General Fund Revenue budget for 2017 is \$118,778,832. A 75% target of this amount is \$89,084,124. This means that General Fund is currently under budget on revenues by \$1,599,467.

Based on staff estimates and expenditure cuts, staff estimates ending 2017 in a stable financial position with only a modest surplus/deficit depending on final revenue numbers, weather conditions and other variables that can impact operations in the fourth quarter.

The revenue gap has closed because of property tax receipt in the third quarter. We anticipate that the revenue gap will again widen as we operate in the fourth quarter with no further property taxes being received.

As noted during Council review of the second quarter report, permit revenues are still anticipated to be well below budget which accounts for a majority of the revenue shortfall.

Currently, the General Fund has a surplus of \$130,001. In the third quarter of 2016, the surplus was \$5.3 million. The main reason for this surplus last year was the receipt of building permit revenues along with the timing of property tax revenues in the third quarter.

General Fund Expenditures:

Through September 30, 2017, General Fund expenditures were \$87,354,657 or 73.6% of budget for FY 2017. It is important to note, for the General Fund, many expenditures / disbursements are not made evenly throughout the year. For example:

- Seasonal employee wages in Parks, Recreation and Community Services are typically charged during the summer months.
- Police Department assigns additional patrol details during the summer months.
- The first paycheck paid in January (January 13, 2017) has been partially charged back to 2016 (payroll ended January 8, 2017). This means that January only has 1 ½ payrolls booked. These expenses will “catch up” at year-end when December 2017 has 3 ½ payrolls.
- As previously stated, the expenses for Police and Fire now include the transfer of property taxes to their respective pension funds. 98% of this expense has been charged to these departments, pushing both over the 75% expense goal.
- As directed in July, staff has implemented a number of expense cutting procedures designed to end 2017 with expenses in line with the reduced revenues.
 - Non-essential purchases have been held (i.e. furniture, training and travel)
 - Over-time reports presented to Council monthly

- o Hiring freeze
- o Furlough Day November 10th (to be reflected in 4th Quarter Report)
- o Additional transfers from other funds

Staff will continue to monitor expenditures throughout the year and will provide regular reports to the City Council.

Overall, a comparison between the third quarter of 2016 and the third quarter of 2017 can be seen below. It is important to note that 2017 is the first year where Economic Development funds are included as revenues and expenses in the General Fund.

	Revenues	Expenses
Third Quarter 2016	\$ 88,063,846	\$ 82,784,748
Third Quarter 2017	\$ 87,484,657	\$ 87,354,657

Enterprise Funds:

Revenues and expenses for the Parking, Water, Sewer and Solid Waste Funds were all below the 75% budget target. Similar to the General Fund, many enterprise fund revenues and expenses / disbursements do not occur evenly throughout the fiscal year. In the case of the Water and Sewer Funds, pumpage levels are lower, which reduces both expense and revenues in these funds for the first quarter. In the case of Water, Sewer, and Parking, capital expenses do not usually occur until the second and third quarters each year. Staff will continue to monitor and report on the performance of City enterprise fund revenues and expenditures throughout FY 2017.

A summary of Enterprise Revenue and Expenses is below:

	Revenues	% of Budget	Expenses	% of Budget	Net Q3
Parking Fund	7,017,436	62.8%	6,645,095	45.8%	372,341
Water Fund	13,454,536	55.2%	11,478,378	30.1%	1,976,158
Sewer Fund	9,701,233	73.9%	8,924,815	61.1%	776,418
Solid Waste Fund	3,670,652	70.6%	3,536,905	68.0%	133,747

Attachments

Attachment 1: Investment Report

Attachment 2: September 30, 2017 Monthly Financial Report