



## Memorandum<sup>6</sup> of 454

To: Honorable Mayor and Members of the City Council

From: Marty Lyons, Assistant City Manager and Chief Financial Officer  
Louis Gergits, Interim Finance Division Manager

CC: Wally Bobkiewicz, City Manager

Subject: Year-End Financial Report for Fiscal Year 2011

Date: February 21, 2012

Recommended Action:

Staff recommends City Council accept and place the Year-End FY 2011 Financial Report on file.

Funding Source:

N/A

Summary:

The City ended the ten-month transitional 2011 fiscal year in stable financial condition. The City's financial performance is the result of revenues remaining relatively consistent with budget targets and expenditures being held below budgeted levels.

Attached are summaries of the City's funds for FY 2011. The FY 2011 year-end financial report includes unaudited figures which may be subject to change, as final receivable and payable entries are made. In reviewing this report, please note the following:

1. 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).
2. State revenue sources are delayed by one to three months based on the revenue source in question.
3. 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 bi-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.

4. 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.
5. 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.

Based on our monthly reporting information, as of December 31, 2011, the General Fund ending fund balance would be \$16.36M, which represents approximately 23% of the City's 2011 General Fund expenditures.

Please note also that as a part of our conversion to a calendar year there will be a change in our recording of fund balance because of a change of our treatment of property taxes. In the past, the City treated property taxes received within 60 days of the close of the fiscal year as revenue in that year. In other words 1<sup>st</sup> installment distributions made in March and April each year were credited to the previous year's financial statement. Since we do not receive as much of the 2011 levy property taxes in January or February, there will be less revenue to credit back to 2011, and our receivable will be reduced in the 2011 Audited Financial Statements. This does not impact our cash balance in any way. We will not know our final property tax receipts to be credited into the 2011 fiscal year until Tuesday February 28, 2012 and we will provide a final analysis in the 2011 independent audit report. The table below provides a summary of this change:

	General Fund	General Fund (Revised)
Audited unrestricted, undesignated fund balance @ 2/28/11	\$ 14,581,963	\$ 14,581,963
Audited unrestricted, designated fund balance @2/28/11	\$ 5,426,913	\$ 5,426,913
<b>Total Unrestricted Fund Balance @2/28/11</b>	<b>\$ 20,008,876</b>	<b>\$ 20,008,876</b>
Unaudited General Fund revenues FY 2011	\$ 73,175,352	\$ 73,175,352
Estimated Change in Property Tax Receivables		\$ (6,500,000)
Unaudited General Fund expenditures FY 2011	\$ 71,399,332	\$ 71,399,332
Unaudited net surplus (deficit) FY 2011	\$ 1,776,020	\$ (4,723,980)
<b>Estimated unrestricted, fund balance @ 12/31/11</b>	<b>\$ 21,784,896</b>	<b>\$ 15,284,896</b>
<b>Estimated unrestricted, cash balance @ 12/31/11</b>	<b>\$ 10,572,661</b>	<b>\$ 10,572,661</b>

The above table now shows that at our year-end, we will still have more receivables (e.g. funds owed from the state for sales, income and other taxes including property taxes) than payables (e.g. those payments made in the first three bills lists of this year).

Because of our increase in fund balance in the absence of the above accounting change, staff will be coming to the Council with recommendations for use of the

approximate \$1.8 million surplus for one-time capital expenses at the March 19, 2012 Council meeting. The City's undesignated unreserved fund balance is still 11.9% and the unreserved fund balance is 18.5% of 2012 budgeted General Fund expenses. The minimum reserve per budget policy is 8.3%

A brief summary of the other issues impacting our revenues and expenditures in the General Fund and selected enterprise funds is provided immediately below.

#### General Fund Revenues:

Through year-end of FY 2011, General Fund revenues were \$73,175,352 or 99.1% of Fiscal Year 2011 Budget.

- Through December 31, 2011 property tax revenue was \$16,009,204 or 96.9% of budget. The FY 2011 property tax revenues were \$506,996 below the budgeted target of \$16,516,200. Staff recommends increasing the loss factor for property taxes from 2% to 3% as FY 2011 represents the second consecutive year in which property tax collections have fallen short of the levy amount.
- State income tax was recorded in the amount of \$4,855,460 through December 31, 2011, achieving 104.7% of the budget target for this revenue item. State income tax is typically received in arrears by one or two months.
- Regular sales tax revenue in FY 2011 was \$7,403,517 or 101.4% of budget. Home rule sales tax revenue in FY 2011 was \$4,749,481 or 104.3% of budget.
- Real estate transfer tax through December 31, 2011 totaled \$1,989,587 achieving 132.6% of the budget target for this item. This includes large property sales.
- Through December 31, 2011, licenses, permits, and fees were approximately 93% of budget. Permit revenue was \$2,979,042 or 83.1% of budget. In comparison, license revenue is \$2,957,613 or 113.1% of target budget.
- The major revenue sources which did not perform near budgeted levels were the natural gas utility tax and interest income. Natural gas distribution tax revenue was \$848,770 or 61.28% of budget. The lower than expected natural gas distribution tax revenue is explained by the moderate winter experienced in the northern Illinois area. The natural gas utility tax is charged to the user/customer on a per therm basis.

#### General Fund Expenditures:

General Fund expenditures through December 31, 2011 were \$71,399,332 or 96.7% of budget. A summary of departmental budgetary performance for FY 2011 is provided in the section below:

- Through December 31, 2011, legislative expenditures totaled \$514,586 or 98.4% of the budget target of \$523,131. Legislative expenses are associated with the City Council and City Clerk's Office.
- Through December 31, 2011, City Administration expenditures totaled \$1,329,524 or 79.3% of the budget target of \$1,675,952. City Administration expenses are associated with the City Manager's Office.
- Through December 31, 2011, Administrative Services Department expenditures totaled \$7,030,956 or 85.7% of the budget target of \$8,206,488.
- Through December 31, 2011, Community and Economic Development Department expenditures totaled \$2,677,868 or 94.8% of the budget target of \$2,824,205.
- Through December 31, 2011, Police Department expenditures totaled \$20,400,229 or 100.7% of the budget target of \$20,263,642. The unfavorable expenditure variance in the Police Department (actual expenditures higher than budget expenditures) is primarily attributable to higher than anticipated holiday, separation, sick leave payouts plus costs for specials events and overtime exceeding budgeted amounts.
- Through December 31, 2011, Fire & Life Safety Services expenditures totaled \$11,005,350 or 98.3% of the budget target of \$11,192,783.
- Through December 31, 2011, Health Department expenditures totaled \$1,989,997 or 93.2% of the budget target of \$2,135,313.
- Through December 31, 2011, Public Works Department expenditures totaled \$6,576,242 or 95.8% of the budget target of \$6,862,268.
- Through December 31, 2011, Library Department expenditures totaled \$3,650,508 or 98.4% of the budget target of \$3,708,359.
- Through December 31, 2011, Parks, Recreation and Community Services Department expenditures totaled \$15,407,209 or 98.4% of the budget target of \$15,653,221.

### Enterprise Funds:

The Parking Fund revenues for FY 2011 were \$8,434,739 or 81.88% of budget and expenditures were \$7,591,060 or 56.65% of budget, resulting in a surplus of \$843,679. This surplus has been substantially reduced from the \$3.3M surplus listed in the November 2011 financial reports. The reduction in the Parking Fund surplus is the result of debt service payments made in the final quarter of the fiscal year. The year-end fund balance was \$22,889,976. The Parking Fund is also scheduled for major capital improvements including meter replacements, continued deck maintenance and signage in 2012.

The Water Fund revenues for FY 2011 were \$16,042,015 or 109.66% of budget and expenditures were \$14,324,674 or 80.08% of budget, resulting in a surplus of \$1,717,341. The year-end fund balance was \$7,851,228. Debt proceeds exceeded budget by approximately \$680,000. This is due to GO 2011A bond premium in the amount of \$37,530 and IEPA loan proceeds of \$642,359.

The Sewer Fund revenues for FY 2011 were \$20,148,065 or 102.22% of budget and expenditures were \$16,291,756 or 95.52% of budget, resulting in a surplus of \$3,856,309. The year-end fund balance was \$2,967,246.

The Solid Waste Fund revenues for FY 2011 are \$2,821,011 or 95.64% of budget and expenditures were \$4,213,071 or 106.2% of budget, resulting in a deficit of \$1,392,060. The negative year-end fund balance was \$1,392,060 and the negative cash balance was 1,443,886. For FY 2012, \$1.2M is budgeted for transfer from the General Fund to the Solid Waste Fund to eliminate the negative fund balance.

### Other Funds:

For FY 2011, the Homelessness Prevention and Rapid Re-Housing Program (HPRP) posted revenues and expenditures of \$195,943, and it is anticipated that this grant funded program will close in early 2012.

The Neighborhood Stabilization Fund posted revenues of \$4,688,070, which was 55.89% of budget and expenditures of \$4,685,809 which was 55.87% of budget, resulting in a surplus of \$2,261 and a year-end fund balance of \$2,261.

The Motor Fuel Fund revenues of \$1,877,521 performed at 98.71 % of budget through December 31, 2011. Expenditures were \$1,678,433 or 88.46% of budget, resulting in a surplus of \$199,088. The year-end fund balance was \$881,178.

The Emergency 911 (E911) Fund revenues for FY 2011 were \$851,156 or 98.31% of budget. Expenditures were \$936,020 or 82.54% of budget, resulting in a deficit of \$84,864. The fund had a deficit of \$268,208 budgeted in FY 2011. The year-end fund balance for the E911 Fund was \$1,309,968.

The Special Service Area (SSA) #4 Fund performed close to budget with revenues of \$377,423 at 99.85% of budget and expenditures of \$388,000 at 102.56% of budget. The fund posted a deficit of \$10,577. SSA #4 has a year-end fund balance of \$101,748 and negative cash balance of \$89,909 through December 31, 2011. Staff expects the first installment of the 2011 property tax levy (which will be collected in 2012) will offset the deficit and negative cash balance in the fund.

The Community Development Block Grant (CDBG) Fund revenues for FY 2011 were \$1,493,988 or 69.81% of budget and expenditures were \$1,620,240 or 77.26% of budget, resulting in a net deficit of \$126,252. The year-end fund balance was \$296,547 and there was a cash balance of \$56,929.

The CDBG Loan Fund revenues for FY 2011 were \$164,056 and expenditures were \$194,225, resulting in a net deficit of \$30,169. The fund had a deficit of \$11,000 budgeted in FY 2011. The year-end fund balance was \$1,974,553 and there was a cash balance of \$26,032.

The Economic Development Fund revenues for FY 2011 were \$1,415,423 or 85.37% of budget and expenditures were \$1,857,015 or 92.05% of budget, resulting in a deficit of \$441,592. Fund revenues were below budget due to lower than expected hotel and amusement tax collections. Hotel tax revenue was 11% below budget and amusement tax revenue was 29% below budget. Current year expenses included the purchase of property on Howard Street which will be returned to the fund in accordance with the redevelopment plan approved by the City Council. The year-end fund balance was \$1,981,609 and a cash balance of \$1,939,318.

The Neighborhood Improvement Fund revenues for FY 2011 were \$20,000 or 100% of budget and there were no expenditures, resulting in a surplus of \$20,000. The year-end fund balance was \$109,915.

The Home Fund revenues for FY 2011 were \$80,680 or 14.15% of budget and expenditures were \$85,861 or 15.06% of budget, resulting in a deficit of \$5,181. The year-end fund balance was \$2,631,350.

The Affordable Housing Fund revenues for FY 2011 were \$19,666 or 67.05% of budget and expenditures were \$47,157 or 17.58% of budget, resulting in a deficit of \$27,491.

The fund had a deficit budgeted for FY 2011 of \$238,896. The year-end fund balance was \$2,271,662.

The Washington National TIF Fund revenues for FY 2011 were \$5,175,137 or 107.26% of budget and expenditures were \$4,301,049 or 84.39% of budget, resulting in a surplus of \$874,088. The year-end fund balance was \$10,036,764.

The SSA #5 Fund revenues for FY 2011 were \$426,936 or 99.55% of budget and expenditures were \$53,853 or 12.56% of budget, resulting in a surplus of \$373,083 through December 31, 2011. A debt service principle payment budgeted for FY 2011 was not incurred until January 2012. The year-end fund balance was \$611,505.

The Southwest II TIF Fund (Howard-Hartrey) revenues for FY 2011 were \$1,214,462, or 93.06% of budget and expenditures were \$853,857 or 65.01% of budget, resulting in a surplus of \$360,605. The year-end fund balance was \$5,572,370.

The Southwest TIF Fund revenues for FY 2011 were \$451,452 or 68.77% of budget and expenditures were \$724,100 or 100% of budget, resulting in a deficit of \$272,648. Fund revenues were below budget due to lower than expected property tax increment collections. The fund had a deficit budgeted for FY 2011 of \$67,600. The year-end fund balance was \$124,849 and there was a negative cash balance of \$121,881. The shortfall is due to the payment of the Ward Manufacturing incentive and this deficit will be made up with the first installment of the 2011 property tax levy (which will be collected in 2012).

The Debt Service Fund revenues for FY 2011 were \$13,563,603 or 113% of budget and expenditures were \$12,994,881 or 130.5% of budget, resulting in a surplus of \$568,722. The year-end fund balance was \$243,256. Both revenues and expenditures exceeding budget were the result of the approved refunding of the 2003B series bonds.

The Howard Ridge TIF Fund revenues were \$676,989 or 98.2% of budget and expenditures were \$145,812 or 121% of budget, resulting in a net surplus of \$531,177. The year-end fund balance was \$1,283,127.

The West Evanston TIF Fund revenues for FY 2011 were \$494,251 or 85.07% of budget and expenditures were \$113,875 or 21.09% of budget, resulting in a surplus of \$380,376. The year-end fund balance was \$1,634,819.

The Capital Improvement Fund revenues were \$5,481,965 or 54.63% of budget and expenditures were \$7,962,919 or 59.38% of budget, resulting in a deficit of \$2,480,954. The fund had a deficit budgeted for FY 2011 of \$3,375,845. Both revenues and

expenditures for the Capital Improvement Fund were significantly below budget in FY 2011. The shortfall in revenue was the result of approximately \$4M in anticipated grants which were not awarded to the City. As a result, associated expenditures from grant-funded projects were not incurred in FY 2011. The year-end fund balance for the Capital Improvement Fund was \$3,424,390.

The Special Assessment Fund revenues for FY 2011 were \$239,276 or 41.61% of budget and expenditures were \$1,026,014 or 54.21% of budget, resulting in a deficit of \$786,738. The fund had a deficit of \$1,317,659 budgeted in FY 2011. The year-end fund balance was \$2,973,217.

The Fleet Fund revenues for FY 2011 were \$4,103,726 or 100.22% of budget and expenditures of \$3,921,052 or 76.81% of budget, resulting in a surplus of \$182,674. The year-end fund balance was \$2,576,632. The majority of this fund balance will be transferred to the Equipment Replacement Fund in 2012 for the purchase of new vehicles

The Insurance Fund revenues for FY 2011 are \$14,614,602 or 95.68% of budget and expenditures were \$13,871,043 or 94.98% of budget, resulting in a surplus of \$743,559. As of December 31, 2011, the Insurance Fund has a negative fund balance of \$4,193,938 and a cash balance of \$1,275,648. A large portion of this negative fund balance is due to insurance reserves for potential claims payable. These claims/cases have not been settled, and therefore there is no guarantee the City will actually experience this negative fund balance as estimated. It is important to note that it is difficult to budget for many insurance related expenses due to the highly uncertain nature of insurance claims.

As an Internal Service Fund, the Insurance Fund reserves or deficits are for all intents and purposes reviewed as a part of the General Fund. As such, it is imperative that the City reduce these deficits to avoid any negative impact to General Fund operations.