MEMORANDUM

cityofnovi.org

TO: VICTOR CARDENAS, INTERIM CITY MANAGER

FROM: CARL JOHNSON, JR. CFO

SUBJECT: FINANCIAL REPORT AS OF DECEMBER 31, 2022

DATE: JANUARY 24, 2023

Mayor and Council

FYI

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The purpose of this memorandum is to highlight fiscal year-to-date revenue and expenditure activity through the second quarter ending December 31, 2022 (see attached report for budget-to-actual information prepared by budget category within each fund). The rollover and any other individual budget amendments approved through the January 23, 2023 council meeting are reflected on the attached report. Through the second quarter, generally, revenues and expenditures should represent approximately 50% of the budget.

General Fund

The original approved General Fund budget reflected a use of fund balance by $424,850. The amended budget for the General Fund currently shows a reduction in fund balance in the amount of $2,559,460 due to the following amendments:

- rolling over expenditure budgets in the amount of $2,040,575 related to projects/purchases from fiscal year 2021/22 that were obligated as of June 30, 2022 but not completed.

- Approval of additional funds in the amount of $38,640 to update the non-motorized plan due to bids coming back higher than budget.

- Approval of additional funds in the amount of $55,395 for the Police Department Building Generator & Technology including concrete pad project due to bids coming back higher than budget.

Revenues

Total General Fund revenues for the second quarter are $31,220,407, representing 78% of the $40,177,888 General Fund amended revenue budget. The General Fund revenues are on track through the second quarter with the following items of note:

- **Property Tax Revenue** – Property taxes account for approximately 67% of total General Fund revenue. Revenue is recorded in July at the time property taxes are billed. Most of the penalty and interest collections are received in the third and fourth quarters which is the reason revenue is approximately $184,000 less than budget.

- **Licenses, Permits, and Charges for Services** – The October/November cable franchise revenue was received in the amount of approximately $196,000 which is $16,500 lower than estimated through the second quarter. Overall building-related revenues continue to lag from pre-COVID levels and budget due to inflation and supply chain issues and have only increased slightly from last year. The original revenue budget has been decreased by approximately $85,000 to date and will continue to be monitored and adjusted as needed over the last half of the fiscal year.

- **State Sources** – The second quarter reflects the October and December distributions as anticipated (August 2022 included in fiscal year 2022 as required). The State of Michigan is currently projecting state shared revenues of $6,858,550 compared to $8,171,113 last fiscal year (which included a one-time census adjustment).

- **Fines and Forfeitures** – Court Fees and Fines revenue (ticket revenue) is received from the 52nd District Court monthly for the prior month. The attached report reflects five payments received through the second quarter as expected: July through November. Revenues are continuing to be less than anticipated and is running $42,000 less than the prior year's second quarter. Overall, ticket revenue is on track to end at its lowest level in the last 9 years.

- **Interest Income (including investment gain/loss)** – As promised by the Feds and shared in the first quarter update, significant interest rate increases have taken place July through December 2022 which decreased the fair value of the current longer-term investments and has resulted in unrealized market losses. During the second quarter rate increases have slowed and it's anticipated that the unprecedented rate increases may soon be coming to an end. As a result, the City overall saw a significant reduction in the unrealized losses during the second quarter. The City can have unrealized market value losses on long term investments on an annual basis but as long as the investment is held to maturity, no actual loss will be incurred. Actual interest rates on new investments are up more than 3% from this time last year.

Expenditures

Total General Fund expenditures for the second quarter are $20,293,787 representing 47% of the $42,737,348 General Fund amended expenditure budget. While a few departments exceed 50% to date due to capital purchases or annual payments, expenditures in total have not exceeded the 50% mark and are in line through the second quarter with the following items of note:

- Personnel Services may be higher than 50% through December 2022 due to the timing of one-time retirement/separation payouts, annual longevity payments, and annual payouts of PTO time. The City Clerk department experienced additional expenditures related to election-related activities and the Technology and Facility Management departments experienced changes in insurance due to personnel changes.

- The City Attorney, Insurance, & Claims department is at 57% due to the annual property and liability insurance paid during the first quarter.

- The City Clerk's Department is at 41%, however; additional election-related expenditures due to new state mandates (including supplies, other services and charges, and personnel services) are above 50% but offset by unspent capital budgets. State funds in the amount of approximately $20,000 is anticipated to be received to cover some these additional expenditures.

- Community Relations is at 60% mostly due to annual payments for the calendar and Engage, the entryway sign replace project being approximately 73% complete, and Winter Fest expenditures exceeding budget and donations by approximately $22,000.

- The Department of Public Works Field Operations Division's labor and equipment allocations to other funds continue to be lower than budget through the second quarter. The General Fund allocates out various DPW costs to Major and Local Street funds as well as the Drain Fund. As winter maintenance and spring/summer construction pick up over the next six months, activity is anticipated to be more in line with budget; appropriate budget amendments will be brought forward if needed.

Special Revenue Funds

The various special revenue funds' revenues and expenditures are in-line with budget through the second quarter ending December 31, 2022. Items of note are included within certain Special Revenue Funds on the following pages:

Major, Local, & Municipal Street Funds

Property Tax Revenue is at the 101% mark in the Municipal Street Fund due to the recording of property tax revenue as of July 1st, at the time the tax bills are issued. Also, chargebacks from the County are lower than anticipated.

As expected, the Act 51 revenue recorded in the Major and Local Street funds represent four months of revenue through the second quarter since there is a two-month lag in receiving the payments from the State. The budget anticipates $6.9 million of Act 51 revenue and is on track for the first half of the fiscal year.

The Local Street Fund fully expended the budgets for joint/crack seal maintenance, TechCrete road repair, and concrete panel repairs through December 2022 causing the other services and charges budget to be at 58%. Also, construction has begun for the 12 Mile Road (Medina-City Limits) and the Neighborhood Road Program causing the capital outlay budget to be at 68%. Maintenance and construction are lower than budget through December as expected for the Major and Municipal Street funds. Winter maintenance will pick up over the next couple months and construction will pick up in the spring/summer.

Parks, Recreation, & Cultural Services Fund
The revenues for this fund continue to rebound after the COVID-19 pandemic and remain on track with budget. Program revenue and older adult program revenue average 52% through the second quarter. Program expenditures, including older adult programs, average 56%. The seasonal nature of the programs lends to greater (or lessor) revenues and expenditures depending on the time of year.

Tree Fund
Similar to the building licenses and permits revenue in the General Fund, Tree Fund revenues continue to be hit hard from the construction slow down due to inflation and supply chain issues. Revenues are $19,950 through the second quarter compared to $2,400 during the first quarter. The budget will continue to be monitored and significant revenue amendments will be needed. Most of the maintenance as well as the fall plantings have been completed through the second quarter.

Forfeiture Fund
The fines and forfeiture revenue are approximately $132,000 through the second quarter compared to last fiscal year's total revenue of $79,000. The fund will continue to be amended based on activity since we do not know when forfeiture funds will be released by the courts to the city.

Capital Project Funds

PEG Cable Capital Fund
The PEG Cable Capital Fund receives quarterly PEG payments, and the October/November revenue was received in the amount of $78,000 which is approximately $5,000 less than budget through the second quarter and less than prior year.

Enterprise Funds

The enterprise funds' revenues and expenditures are anticipated to be in-line with budget. All enterprise funds will continue to be monitored and amended as needed. The Water and Sewer Fund has significant capital expenditures that were rolled over from fiscal year 21/22 and will resume in the spring along with the new 22/23 projects. An adopted budget is not required, per the State Budget Act, for enterprise funds and the information is primarily presented for informational purposes only. There are no other significant items to highlight at this time.

Internal Service Fund

Self-Insurance Healthcare Fund

This Fund was created in January 2020 to track the costs associated with the HAP healthcare program. The City is required to pay all claims and gets reimbursed for claims by case over $100,000. During the second quarter more than one million dollars for a specific claim was paid with most being reimbursed significantly increasing the expenditure and revenue budgets. In general, health insurance costs (net) are trending higher than budget and prior year for the first half of the year. An adopted budget is not required, per the State Budget Act, for internal service funds and the information is primarily presented for informational purposes only. There are no other significant items to highlight at this time.

Fiduciary Fund

Retiree Healthcare Benefits Fund

The second quarter investment results have improved with part of the improvement being the reduction of the unrealized investment losses from previous quarters (see General Fund). Through the first half of the year, the overall returns have been better than break even which is less than budget but much better than last year with the hope that returns rebound in the coming quarters. Overall, health insurance costs are running slightly more than budgeted (see Self-Insurance Healthcare Fund). An adopted budget is not required for the Retiree Healthcare Benefits Fund, per the State Budget Act since it is a fiduciary fund. The fund is primarily presented for informational purposes only. This fund invests all available resources in instruments similar to the pension funds which include stocks, bonds and other long-term financial investments.