MEMORANDUM

cityofnovi.org

TO: VICTOR CARDENAS, INTERIM CITY MANAGER

FROM: CARL JOHNSON, JR. CFO

SUBJECT: FINANCIAL REPORT AS OF MARCH 31, 2023

DATE: APRIL 24, 2023

The purpose of this memorandum is to highlight fiscal year-to-date revenue and expenditure activity through the third quarter ending March 31, 2023 (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 April 17, 2023, council meeting are reflected in the attached report. Through the third quarter generally revenues and expenditures represent approximately 75% of the budget.

General Fund

The original approved General Fund budget reflected a use of fund balance in the amount $424,850. The amended budget for the General Fund currently shows a reduction in fund balance in the amount of $3,671,354 due to the following Council-approved 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 $50,534 to update the Active Mobility Plan (formerly known as the non-motorized master 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.

- Approval of funds in the amount of $875,000 for the Police Department In-car Cameras and Body Cameras to guarantee pricing and move forward with purchasing equipment since delivery is estimated at nine to twelve months.

- Approval of funds in the amount of $225,000 for the City Council Ice Storm Response Initiative.

Revenues

Total General Fund revenues for the third quarter are $34,127,260, representing 84% of the $40,739,058 General Fund amended revenue budget. The General Fund revenues are on track through the third 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. Penalty and interest collections are less than budget through the third quarter which is the primary reason the overall revenue is approximately $148,000 less than budget. This is to be expected; final tax settlement with the County will take place in the fourth quarter at which time the City will receive the penalties and interest due on all delinquent real property.

- **Licenses, Permits, and Charges for Services** – The January/February cable franchise revenue was received in the amount of approximately $196,000, similar to the first payment received in October/November. Cable revenue is approximately $33,000 lower than budgeted through the third quarter. Overall building-related revenues continue to be negatively impacted by inflation and supply chain issues. Revenues are running approximately $220,000 more than last March; however, significantly lower than budget. A final adjustment for the fourth quarter to bring the budget in line with activity will be provided.

- **State Sources** – The third quarter reflects the October, December, and February distributions as anticipated (August 2022 included in fiscal year 2022 as required). The State of Michigan is currently projecting state shared revenues of $7,344,508.

- **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 eight payments received through the third quarter as expected: July through February. Revenue is 42% of budget; totaling approximately $146,000 compared to $184,000 last March. Overall, ticket revenue continues to fall annually and is projected to end the year below COVID shutdown levels.

- **Interest Income (including investment gain/loss)** – The third quarter investment results show continued improvement since the beginning of the fiscal year. Through the third quarter, investment income is $260,000 including realized and unrealized gains compared to last March which reflected a net unrealized loss of $390,000. 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. The City expects a strong fourth quarter in investment earnings now that the interest rate increases have slowed, and actual rates are near 5% annually.

Expenditures
Total General Fund expenditures for the third quarter are $30,011,363 representing 68% of the $44,410,412 General Fund amended expenditure budget. Most department expenditures have not exceeded the 75% mark and are in line through the third quarter with the following items of note:

- Personnel Services may be higher than 75% through March 2023 due to the timing of one-time retirement/separation payouts, annual longevity payments, annual payouts of PTO time, and changes in insurance.

- Community Relations is at 87% due to additional postage expenditures related to the fire recruiting initiative mailers, expenditure overages with the newsletters, and timing of annual events like Winter Fest and State of the City. Also, the entryway sign replacement project is 100% complete.

Special Revenue Funds

The various special revenue funds' revenues and expenditures are in-line with budget through the third quarter ending March 31, 2023. 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 100% 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 so revenues are $25,578 more than the amended budget.

As expected, the Act 51 revenue recorded in the Major and Local Street funds represents seven months of revenue through the third quarter since there is a two-month lag in receiving the payments from the State. The amended budget anticipates $7.9 million of Act 51 revenue and is on track through March.

Maintenance and construction expenditures are lower than budget through March in all three street funds. The majority of winter maintenance has ended through the third quarter, therefore; spring-related maintenance and construction has recently begun with expenditures anticipated to be in line with the amended budget by fiscal year-end.

Parks, Recreation, & Cultural Services Fund
Program revenue and older adult program revenue average 68% through the third quarter. Program expenditures, including older adult programs, are at 67%. The seasonal nature of programs has resulted in lessor revenues and expenditures compared to budget through the third quarter of the fiscal year which is as expected. Revenues and expenditures are comparable to March last year and are anticipated to pick up beginning in April in preparation for summer events, programs, and sports.

Drain Fund
Revenues are on track through the third quarter. Property Tax Revenue is recorded in July at the time property taxes are billed and are $110,000 more than last year's third quarter. The West Nile reimbursement from the County is received annually in June. Expenditures are lower than budget through the third quarter but are on track since spring maintenance and construction begin in April. Significant catch basin repairs are planned for the fourth quarter. Equipment and labor allocations from the General Fund are less than budget at approximately 70% through March but are anticipated to come in at budget.

Tree Fund
The Tree Fund revenues continue to be negatively impacted as inflation and supply chain issues slow new development. Revenues are $149,150 through the third quarter compared to the second quarter's revenue of $19,950. Finance will monitor this revenue and recommend a final adjustment for the fourth quarter to bring the budget in line with activity. Similar to the second quarter, most of the maintenance, as well as the fall plantings, have been completed. Annual spring plantings are scheduled to be done by June 30th.

Forfeiture Fund
The fines and forfeiture revenue are approximately $150,000 through the third quarter compared to the second quarter's total of $132,000. Since revenue collection is unpredictable and based on the court releasing the funds to the City, the budget will continue to be monitored and amended accordingly.

Debt Service Fund

2008 Library Construction Fund
Property Tax Revenue is recorded in July at the time property taxes are billed and are approximately $60,000 more than last year's third quarter. Annual principal and interest payments on the bonds have been paid in full.

Capital Project Funds

PEG Cable Capital Fund
The PEG Cable Capital Fund receives quarterly PEG payments, and the second payment received in January/February was in the amount of $78,000 similar to the first payment received in October/November. Cable revenue is approximately $11,000 less than the budget through the third quarter and continues to be less than the 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. 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. Expenditures through the third quarter are approximately $1.7 million higher than last year's third quarter. This includes the $1.0 million claim recorded during the second quarter. In general, health insurance costs (net) continue to trend higher than budget and prior year due to several large claims during the current fiscal 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.

Fiduciary Fund

Retiree Healthcare Benefits Fund

The third quarter investment results show continued improvement since the beginning of the fiscal year. Through the third quarter, $1.6 million investment income has been recorded, including realized and unrealized gains, compared to last year's third quarter investment loss of $769,000. Although overall investment income is less than budget, it is much better than last year and trending toward meeting budget by the end of the fiscal year. Overall, health insurance costs are on track with the amended budget. 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 according to Public Act 314 and includes instruments similar to pension funds which include stocks, bonds and other long-term financial investments.