MEMORANDUM

cityofnovi.org

TO: VICTOR CARDENAS, CITY MANAGER

FROM: CARL JOHNSON, JR. CFO

SUBJECT: FINANCIAL REPORT AS OF SEPTEMBER 30, 2023

DATE: OCTOBER 25, 2023

The purpose of this memorandum is to highlight fiscal year-to-date revenue and expenditure activity through the first quarter ending September 30, 2023 (see attached report for budget-to-actual information prepared by budget category within each fund). The fiscal year 2022-23 audit is completed, and the final printed report is planned to be officially released to the Mayor and City Council at the November 13, 2023 council meeting. The June 30, 2023 ending balances on the attached report are shown as "audited". The rollover and any other individual budget amendment approved through the October 23, 2023 council meeting are reflected in the attached report. Through the first quarter, generally, revenues and expenditures should represent approximately 25% of the budget.

General Fund

The original approved General Fund budget reflected expenditures exceeding revenues by $812,770. The amended budget for the General Fund currently shows a reduction in fund balance in the amount of $4,197,254 due to rolling over expenditure budgets in the amount of $3,134,484 related to projects/purchases from fiscal year 2022/23 that were obligated as of June 30, 2023 but not completed and $250,000 from the settlement of the fire union contract.

Revenues

Total General Fund revenues for the first quarter are $29,917,275, representing 73% of the $41,235,977 General Fund amended revenue budget. The General Fund revenues are on track through the first quarter with the following items of note:

- Property Tax Revenue – Property taxes account for approximately 69% 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 by approximately $201,000 through the first quarter which is to be expected since late payment penalty and interest collections are primarily received in the third and fourth quarter each fiscal year.

- Licenses, Permits, and Charges for Services – The City receives quarterly cable franchise payments in Oct/Nov, Jan/Feb, Apr/May, and Jul/Aug. The payments received in Jul/Aug were accrued to FY 2022-23 per accounting rules, therefore; the first quarter reflects no revenue as anticipated. Cable revenues are estimated to be approximately $187,500 per quarter. Building-related revenues are lower than the prior year's first quarter by approximately $133,000 but only $81,000 less than budget. The building revenues have been significantly impacted by COVID-19 the past couple years and have yet to rebound back to pre-pandemic levels. Finance will continue to monitor this revenue and adjust the budgets as needed in future quarters.

- State Sources – State shared revenue is the City's second largest revenue source making up approximately 18% of the General Fund revenue. The City receives state shared revenue six times throughout the year (October, December, February, April, June, and August). The City has accrued the August 2023 payment to FY 2022-23 per accounting rules. The first quarter reflects no revenue as anticipated. The amended budget reflects the latest estimate from the State of Michigan for the current fiscal year.

- Fines and Forfeitures – Court Fees and Fines revenue is received from the 52nd District Court monthly for the prior month. The attached report reflects two payments received through the first quarter as expected: July and August. Revenues are down approximately $12,000 compared to the prior fiscal year's first quarter due to less ticket revenue received. Court revenue is projected to be at its lowest level in more than ten years.

- Interest Income (including realized and unrealized investment gain/loss) – In an effort to maximize earnings potential, the City has strategically invested its excess cash. Public Act 20 governs the types of allowable investments the City can invest in. The Act was also created to ensure that operating cash can be invested only in specific financial instruments that are not at risk for loss of principal. Interest income citywide is running ahead of budgeted amounts through the first quarter with overall income of more than 50% of budgeted amounts, The last rate increase by the Feds was July 26, 2023 (expected) and no additional increases occurred during the quarter which drove up yields on new investments to the 5.50-6.0% range. The Feds are attempting to reduce or eliminate additional interest rate increases over the next several months which should result in favorable returns over the next quarter as well.

Expenditures

Total General Fund expenditures for the first quarter are $10,049,077 representing 22% of the $45,433,231 General Fund amended expenditure budget. While a few departments exceed 25% to date due to capital purchases or annual payments, expenditures in total have not exceeded the 25% mark and are in line through the first quarter with the following items of note:

- The City Attorney, Insurance, and Claims Department is at 71% due to the payment of the Property and Liability Insurance bill of approximately $453,000 which is paid out annually during the month of July.

- The Facility Management Department is at 36% due to two capital projects haven taken place in the first quarter; fire station #4 roof replacement and elevator mechanical upgrades totaling more than $381000.

Special Revenue Funds

The various special revenue funds' revenues and expenditures are in-line with budget through the first quarter ending September 30, 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. As anticipated, Trunkline revenue in the Municipal Street Fund included in other revenue is less than budget due to the 2023 summer maintenance program (street sweeping) and the winter maintenance contract (snow and ice removal) with RCOC will be recorded during the second and third quarters. Construction and maintenance expenditures are on target through the first quarter during the summer/fall season. Maintenance costs will increase over the winter months and construction will pick up again throughout the spring/summer season.

Parks, Recreation, & Cultural Services Fund

Property Tax Revenue is at the 100% mark in the Parks due to the recording of property tax revenue as of July 1st, at the time the tax bills are issued. Program revenue is at 23% of current year budget due to the seasonality of the programs offered and remains in line with the budget. OAS program revenue is at 39% primarily due to the Mackinaw trip being recurring again in the current year. Overall program expenditures are at 25% as expected.

Tree Fund

Tree Fund revenues have been on a steady decline for the past couple years due to the overall decrease in development in the City but through the first quarter are running better than budget and are 60% of last year's total revenue.

Drain Fund

The Drain Fund construction expenditures (capital outlay) are light through the first quarter compared to budget due to $2.9 million of capital expenditures being rolled over from fiscal year 2023 into fiscal year 2024 and the anticipated timing of construction. Budgeted transfers in from the Drain Perpetual Maintenance Fund will be recorded as needed as expenditures are incurred.

Rubbish Fund

The Rubbish Fund revenue is approximately 50% due to half of the annual service fee being billed with the July 1, 2023 property tax bill and paid by August 31, 2023. The remaining fee will be billed on the winter tax bills sent out by December 1, 2023. First quarter rubbish invoices have been paid as expected. Monthly bills are approximately $186,000.

Forfeiture Fund

The Forfeiture Fund revenues are at 13% through the first quarter as the budget has been significantly reduced over the last couple of years due to the uncertainty of when the anticipated funds will be released by the court system. The expenditure budget is only at 5% as most of the expenditure is for police vehicles and there continues to be a significant delay in receiving the cars after they are ordered.

Permanent Service Fund

The Drain Perpetual Maintenance Fund transfers funds out to the Drain Fund on an as needed basis to cover budgeted expenditures. No transfers have taken place during the first quarter.

Debt Service Fund

The Library Construction Debt Service Fund is in line with budget through the first quarter. Property Tax Revenue is recorded in July at the time property taxes are billed. Principal payments are made annually in September along with the first installment of interest.

Capital Improvement Funds

The Special Assessment Revolving Fund does not have any capital purchases this fiscal year. The fund loaned all available cash to the Corridor Improvement Authority Fund (CIA) to advance fund part of the Ring Road project in a prior year. The funds are being repaid over multiple years with interest as the CIA tax base increases and before any additional projects are undertaken.

The Capital Improvement Fund began to levy the CIP millage in fiscal year 2018. Property taxes account for 100% of the revenues this fiscal year. Revenue is recorded in July at the time property taxes are billed. Some of the capital items for the current fiscal year include a $1.0 million Fire Pumper replacement (from FY 2023), $1.3 million Fire Pumper replacement, a $2.4 million Splash Pad, a $83,000 pedestrian tunnel replacement at Lakeshore Park which are all in progress. In addition, $3.5 million is budgeted for land purchase. Construction on all projects noted above continues with most of the expenditures planned for spring 2024.

The Gun Range Fund records revenue from renting out of the range to third parties and uses the proceeds to pay for capital expenses. Rental revenue will continue to be monitored and the budget adjusted as needed in future quarters. There is one capital project planned this fiscal year for lighting replacement in the amount of $30,000 which is planned for completion by the end of the fiscal year.

The PEG Cable Capital Fund receives quarterly PEG revenues and reflects no revenue through September as anticipated. Revenues are received quarterly: Oct/Nov, Jan/Feb, Apr/May, and Jul/Aug. The payments received in Jul/Aug were accrued to FY 2021-22 per accounting rules. Construction of the new studio budgeted for $710,000 has begun and is at approximately 63% completed through the first quarter.

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

The City created a Self-Insurance Fund in January 2020 to track the costs associated with the healthcare program. The Fund pays HAP healthcare costs for most employees and allocates the costs to the various departments and funds based on illustrative rates. Health Insurance claims are trending lower than anticipated through the first quarter. The City will be making the final payment of a multi-million dollar FY 2023 claim during the second quarter of approximately $600,000. 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

The Retiree Health Care Benefits Fund first quarter has resulted in realized and unrealized investment losses in the amount of $745,000 in investment interest revenue. Overall investment returns in this fund are approximately 6.25% for the calendar year 2023. The volitivity of the stock market and bond market has continued from last fiscal year into the current year. The nature of this fund and its investments will yield significant swings in yield annually but overall the fund continues on track with its target of a long-term return of 7%. Also, there are no employer contributions for this fiscal year. An adopted budget is not required for the Retiree Healthcare Fund, per the State Budget Act since it is a fiduciary fund. The fund is primarily presented for informational purposes only.