



## Village Manager's Office

**SUBJECT:** 2020 Financial Analysis

**MEETING DATE:** May 26, 2020

**FROM:** Melinda Molloy, Finance Director  
Erik Hallgren, Assistant Village Manager

### Background

The Village of Wilmette recognizes that coronavirus (COVID-19) will place a significant impact on the financials of the Village. The State of Illinois implemented a 'Stay at Home' order that started on Saturday, March 21, 2020. This order will place economic pressure on Wilmette and its budget. Staff has conducted an analysis of the potential financial impact on the Village's major funds and the below analysis shows the outcomes for the Village's General Fund.

At the April 28, 2020 Village Board meeting, staff presented initial projections for the impact of COVID-19 on the Village's revenues and expenses. The revenue analysis consisted of staff assessing revenue individually to rank its sensitivity to the downturn and then assigned a projected downturn factor. The expense analysis consisted of staff providing options to the Village Board for consideration.

### Discussion

Over the past month, staff monitored revenues and gathered additional information to refine projections. The information gathered over the last month is driven by four primary sources:

1. Analysis of Period 4 performance compared to projections
  - Staff reviewed the performance of different revenues compared to the initial budget and the two revenue scenarios. From an overall perspective, the Village is continuing to align with our original projection. The below chart shows Period 4 performance compared to the original projection and the two revenue scenarios.

	Amount	Over/(Under)
P04 Actual	\$2,186,407	
P04 Projection	\$2,184,002	\$2,405
P04 Scenario #1	\$1,917,613	\$268,794
P04 Scenario #2	\$1,878,612	\$307,795

While this performance is positive on an overall basis, a large component of the April actuals are related to prior period activity, such as sales tax being related to January sales. Therefore, the full impact of COVID-19 may not be felt until later periods. Based upon performance, staff made adjustments to revenues.

2. Information provided by the Illinois Municipal League (IML)

- The IML provided projection updates for income tax, personal property replacement tax (PPRT), motor fuel tax (MFT), and local use tax. The financial model has been updated to match the projection information provided by IML.

3. Information provided by Cook County

- Cook County has delayed the property tax deadline from August to October. This is projected to have minimal impact on the total collection of Village property taxes but is expected to delay the revenue. Staff is projecting that one-third (1/3) of the revenues originally projected in August will be shifted to October based upon comments from the Cook County Board of Review.

4. Survey of regional communities

- Attachment #1 includes the results of a survey conducted by Glenview. Wilmette's revenue projections are reasonably aligned with regional municipalities. There are several revenues where the Village's projections are less than regional municipalities. For example, the Village's sales tax estimate is 3.4% less; the rationale for this discrepancy is that the Village does not have any car dealerships or other large retailers, which have had sales impacted by COVID-19, whereas for example, a significant portion of Lake Forest's sales tax is generated by car dealerships.

The updated revenue and expense projections are outlined below. The analysis will focus on changes in revenues estimates for each of the scenarios, changes in the expense projections, and provide an overview of the impact on Village reserves and cash balances.

## Revenues

The primary impact of COVID-19 will be focused on Village revenues. These factors have been updated based upon performance and outside data sources. There are two different scenarios for the revenue impact based upon the duration of COVID-19 and the accompanying financial implications.

- Scenario #1 assumes economic recovery starting in the 3<sup>rd</sup> Quarter
- Scenario #2 assumes economic recovery starting in the 4<sup>th</sup> Quarter

Below is an update of projections for the Village's major revenue sources in the General Fund:

- Income Tax
  - IML provided updated assumptions for income tax that project a 15% overall decrease in income tax compared to the Village's range of 8% to 14% based upon the scenarios. *Staff is revising the assumption for both scenarios to reduce income tax revenue to IML's 15% overall reduction.*
- Personal Property Tax Replacement (PPRT)
  - IML provided updated assumptions for PPRT that project a 30% overall decrease in PPRT compared to the Village's range of 9% to 15% based upon the scenarios. *Staff is revising the assumption for both scenarios to reduce PPRT revenue to IML's 30% overall reduction.*

- Fuel Tax
  - IML provided updated assumptions for fuel that project a 15% overall decrease in fuel compared to the Village's range of 18% to 26% based upon the scenario. Staff assumed a 40% reduction in period 4 in the original scenarios and fuel tax receipts were down 43.5% in period 4. Based upon these two data points, staff will be more conservative and follow the local trend. *The current assumption for both scenarios will be maintained.*
- Hotel Tax
  - The original reduction assumption for period 4 ranged from 50% to 75% in hotel tax. In period 4, revenue was down 30%. *Staff is revising the assumption for both scenarios to increase revenues by an additional 5% per quarter in scenario #1 and 10% per quarter in scenario #2.*
- Vehicle Stickers
  - The original assumptions for vehicle sticker sales assumed a \$200,000 decrease from the budget. Through the end of April, stickers sales were down 15%, which equates to 2,641 stickers or \$204,000. This revenue is following the projected trend. *The current assumption for both scenarios will be maintained.*
- Permits
  - The original assumption for period 4 in the two original scenarios projected a 40% reduction in permits. In period 4, revenue was down 50% compared to budget. *Staff is revising the assumption for both scenarios to reduce permit revenues by an additional 5% per quarter.*
- Property Tax
  - Staff projects that one-third (1/3) of the revenues originally projected in August will be shifted to October. *The current assumption for both scenarios will be maintained.*
- Real Estate Transfer Tax
  - The original assumption for period 4 in the two original scenarios projected a 40% reduction in real estate transfer tax. In period 4, revenue was down 38% compared to budget. *The current assumption for both scenarios will be maintained.*
- Sales Tax
  - The original assumption for period 4 in the two original scenarios projected a 5% decrease in sales tax and a 7.5% reduction in home rule sales tax. In period 4, revenue increased 16% and 7% respectively. The revenues received in April are related to January sales, therefore the impacts of COVID-19 would have had minimal impact on this collection period. Additionally, local use tax, which is driven by online sales was up 36% to \$77,481 for the month of April. While these were positive signs of growth, staff recommends a conservative approach. *The current assumptions for both scenarios will be maintained.*
- Service Charges
  - The original assumption for service charges assumed a range of 3.8% to 6.5% reduction depending on the scenario. This was based on the potential for non-payment of refuse fees or delay in the purchase of yard-waste stickers. In period 4, revenues aligned with projections. *Staff is revising the assumption for both scenarios to increase revenues. The new range is 2.3% to 4.6% reduction depending on scenario.*

- Utility Taxes
  - The original assumption for utility taxes included no reduction to revenues. However, utility taxes are trending 11% under budget; this trend is caused primarily by the telecommunications tax. This revenue reduction is not directly related to COVID-19 and has been trending downward for several years. *Staff is revising the assumption for both scenarios to reduce the telecommunications tax by an additional 15% per quarter.*

### Revenue Outcomes

The revenue outcomes combine both period 4 performance and updated revenue assumptions for both scenarios. The 2020 budget for General Fund revenues is \$34.17 million. During the first 4 periods of 2020, revenues tracked in line with that value. The below chart layers in the updated impacts of scenario #1 and scenario #2. The arrows indicate the change from original scenario assumptions; yellow arrows indicate no change; red arrows indicate the revenue assumptions decreased; and green arrows indicate revenue assumptions improved. The updated impact range for the General Fund is a revenue reduction from \$2.48 million to \$3.04 million. Attachment #2 shows the changes in the scenario projections from March to April.

Revenue Type	Budget	Scenario #1 Reduction	Scenario #2 Reduction
Grant/Contributions	0.13	-	-
Income Tax	2.90	(0.43)	(0.43)
Licenses	1.65	(0.02)	(0.03)
Other	4.22	(0.39)	(0.47)
Permits	2.08	(0.50)	(0.67)
Property Tax	10.46	-	-
Real Estate Transfer Tax	1.12	(0.24)	(0.33)
Sales Tax	5.38	(0.74)	(0.88)
Service Charges	3.18	(0.07)	(0.15)
Utility Tax	2.00	(0.09)	(0.09)
Water Fund Transfer	1.05	-	-
<b>Totals</b>	<b>\$ 34.17 M</b>	<b>\$ (2.48) M</b>	<b>\$ (3.04) M</b>
<b>Total Revenue</b>	<b>\$ 34.17 M</b>	<b>\$ 31.69 M</b>	<b>\$ 31.13 M</b>

*\*in Millions*

### Expenses

In addition to reviewing the Village's revenues, staff looked closely at expenses and how they will impact the cash position of the Village in 2020. The development of the expense model for the financial analysis included the review of historical spending patterns and the analysis of cash flow projections for major capital outlays. Over the past month, staff monitored expenses and gathered additional information to provide more precise projections. The additional information gathered over the last month is driven by three primary sources:

1. Analysis of Period 4 performance compared to projections

- Staff reviewed the performance of expenses compared to the initial budget. The below chart shows Period 4 performance compared to the original projection.

	<b>Amount</b>	<b>Over/(Under)</b>
P04 Actual	\$2,557,470	
P04 Projection	\$2,648,160	(\$90,690)

2. Factoring in saving options and incremental expenses into the projection. The savings opportunities delineated below mitigate the impact of the COVID-19 pandemic without major service impacts to our residents. The additional costs provide support to the local economy in light of the pandemic.

- Savings
  - \$300,000 in operating expenditures – This item includes savings for street lighting, winter operations, vehicle costs such as fuel and maintenance, urban forest management, training, and a variety of other line items.
  - \$150,000 for the engineering program – This item includes bid savings for the street resurfacing program, alley maintenance, and brick street maintenance.
  - \$242,000 for capital equipment replacement fund (CERF) – This item consists of the deferral of the sidewalk snowplow and the council chambers audio visual equipment.
  - \$200,000 for the deferral of the comprehensive plan
- Additional Costs
  - \$531,000 for economic grant program – This includes \$375,000 for the sales tax rebate grant and \$156,000 for the service business grant.
- Other Expenses
  - \$200,000 for additional contribution for the public safety pension program. This amount was included in the budget as a contribution from General Fund reserves in alignment with the phasing of the 15-year rolling amortization. The transfer of funds from the reserve to the pensions plan is scheduled for August.
- Survey of regional communities
  - Attachment #3 includes the results of a survey conducted by Glenview. The survey includes information regarding expenditure reviews by regional communities.

**Expense Outcomes**

The 2020 budget for General Fund expenses is \$35.54 million. From an overall perspective, the Village continues to align with our budget estimates. The below chart layers in the savings options and additional expenses. The updated expense projection for 2020 in the General Fund is \$35.18 million. This is a \$170 thousand decrease from the prior period projections and shows an overall savings of approximately \$370 thousand in 2020

	<b>Amount</b>
2020 Budget	\$ 35.54
2020 Updated Projection	\$ 35.18 ↓
<b>Differential</b>	<b>\$ (0.37)</b>

## Reserve Impact

Based upon the projected impacts to revenues and expenses, staff reviewed the impact on the Village's projected General Fund reserve levels. The below chart shows the projected impacts:

	Budget	Scenario #1	Scenario #2
2020 Beginning Reserve	\$ 15.01	\$ 15.01	\$ 15.01
Revenues	\$ 34.17	\$ 31.69	\$ 31.13
Expenses	\$ (35.54)	\$ (35.18)	\$ (35.18)
<b>Projected Ending Reserve</b>	<b>\$13.64</b>	<b>\$ 11.52</b> ↑	<b>\$ 10.96</b> ↑
% of Operating Expense	38.4%	32.4%	30.8%

*\*In millions*

## Cash Impact

Across the Village's three primary funds; the General Fund, the Water Fund, and the Sewer Fund the Village had \$21.4 million in cash available to fund operations at the end of March. Based upon April activity, the Village ended April with \$19.8 million in cash. Utilizing the projections for revenues and expenses, staff expects that cash will be drawn down to around \$7.24 and the end of June. The primary driver of this draw down is aggressive spending on the Neighborhood Storage Project. Staff is on target to replenish cash with a bond issuance in the month of July, which will reimburse the Village for capital expenses. Staff feels extremely confident in the Village's cash position throughout the fiscal year.

## Next Steps

From an overall perspective, the Village continues to be strongly positioned to weather an economic slowdown due to COVID-19. The Village's strong reserve levels and diverse revenue streams provide flexibility to the Village during these uncertain times. Village staff will continue to monitor, analyze, and report to the Village Board as more information is gathered. This data allows more precise projections and adjust the financial strategy accordingly.

## Attachments

1. Survey Results - Revenues
2. Scenario Projection Updates
3. Survey Results - Expenses
4. Presentation of COVID-19 Financial Analysis

**2020 Financial Analysis  
Comparable Communities - Revenues**

	<b>Sales Tax</b>	<b>Home Rule Sales Tax</b>	<b>Income Tax</b>	<b>Property Tax</b>	<b>Motor Fuel Tax</b>	<b>Utility Tax</b>	<b>Building Permit</b>	<b>Hotel/Motel Tax</b>
<i>Arlington Heights</i>	-26%	-28%	-14%	0%	-24%	0%	-25%	-30%
<i>Buffalo Grove</i>	0%	-22%	-19%	-1%	-40%	-10%	-33%	-50%
<i>Des Plaines</i>	-25%	-25%	-25%	-5%	-10%	-5%	-25%	-25%
<i>Elk Grove</i>	-15%	-15%	-20%	-5%	-25%	-15%	-25%	-50%
<i>Elmhurst</i>	-22%	-25%	-25%	0%	0%	0%	-25%	-50%
<i>Glenview</i>	-18%	-18%	-18%	0%	-32%	-2%	-28%	-54%
<i>Highland Park</i>	-21%	-21%	-12%	0%	-33%	-15%	-54%	-68%
<i>Hoffman Estates</i>	-25%	-25%	-20%	0%	-25%	-5%	-15%	-25%
<i>Lake Forest</i>	-35%	-35%	-45%	0%	-9%	0%	0%	-40%
<i>Mount Prospect</i>	-7%	-9%	-18%	-5%	-12%	-8%	-14%	-22%
<i>Skokie</i>	-7%	-12%	-7%	0%	-46%	-1%	-11%	-22%
<i>Wheeling</i>	-25%	-25%	-25%	0%	-15%	-8%	-20%	-35%
<i>Average</i>	-19%	-21%	-20%	-1%	-23%	-5%	-23%	-39%
<b>Wilmette*</b>	<b>-15.2%</b>	<b>-18.6%</b>	<b>-11.1%</b>	<b>0.0%</b>	<b>-21.9%</b>	<b>0.0%</b>	<b>-23.7%</b>	<b>-32.8%</b>
<i>Over/Under</i>	-3.4%	-2.8%	-8.8%	-1.2%	-0.6%	-5.3%	0.7%	-6.0%

\*average impact of original scenario #1 and Scenario #2

**2020 Financial Analysis**  
**Revenue Reduction Scenario Changes**

**Attachment #2**

**SCENARIO #1**

	<b>April Model</b>	<b>May Model</b>	<b>Change (\$)</b>	<b>Change (%)</b>
GRANT/CONTRIBUTIONS	-	-	-	
INCOME TAX	235,013	433,105	(198,092)	-84.3%
LICENSES	45,286	18,308	26,978	59.6%
OTHER	451,772	389,920	61,851	13.7%
PERMITS	409,841	499,810	(89,969)	-22.0%
PROPERTY TAX	-	-	-	
REAL ESTATE TRANSFER TAX	244,050	240,594	3,457	1.4%
SALES TAX	811,282	742,010	69,272	8.5%
SERVICE CHARGES	122,286	74,083	48,203	39.4%
UTILITY TAX	-	85,818	(85,818)	
WATER FUND TRANSFER	-	-	-	
<b>Grand Total</b>	<b>\$ 2,319,530</b>	<b>\$ 2,483,647</b>	<b>\$ (164,117)</b>	<b>-7.1%</b>

**SCENARIO #2**

	<b>April Model</b>	<b>May Model</b>	<b>Change (\$)</b>	<b>Change (%)</b>
GRANT/CONTRIBUTIONS	-	-	-	
INCOME TAX	408,162	433,105	(24,943)	-6.1%
LICENSES	61,484	33,970	27,514	44.7%
OTHER	581,615	465,050	116,565	20.0%
PERMITS	577,562	667,531	(89,969)	-15.6%
PROPERTY TAX	-	-	-	
REAL ESTATE TRANSFER TAX	328,883	325,427	3,457	1.1%
SALES TAX	946,971	877,699	69,272	7.3%
SERVICE CHARGES	206,872	146,992	59,880	28.9%
UTILITY TAX	-	85,818	(85,818)	
WATER FUND TRANSFER	-	-	-	
<b>Grand Total</b>	<b>\$ 3,111,549</b>	<b>\$ 3,035,591</b>	<b>\$ 75,958</b>	<b>2.4%</b>

**2020 Financial Analysis  
Comparable Communities - Expenses**

<b>Community</b>	<b>Expenditure Reductions</b>
<i>Arlington Heights</i>	
<i>Buffalo Grove</i>	We are considering a variety of options including furloughs and reducing employees through attrition, including an ERI.
<i>Des Plaines</i>	The City is considering a voluntary supplemental ERI
<i>Elk Grove</i>	We have identified over \$6 mil in delayed purchases which includes capital items, internal fund transfers, and a delay in hiring certain positions but not all positions depending on the need. We do not have any layoffs, furloughs, or ERI's anticipated at this time.
<i>Elmhurst</i>	Hiring freeze, deferring capital purchases and reducing all programs/projects as appropriate. No furloughs, layoffs or ERI's at this time.
<i>Highland Park</i>	The City is in process of identifying cost reductions and has not yet identified any specific actions.
<i>Hoffman Estates</i>	We have frozen a large portion of our capital expenses, and we have received operating budget reductions from every department, ranging from 2%-10% of their budgets. We are freezing any vacant personnel, but we are not considering furloughs or layoffs right now.
<i>Lake Forest</i>	A \$4.3 million capital project has been deferred to next year. We are not currently looking at these personnel measures, but tracking the budget carefully month to month. Part time seasonal positions for the summer are on hold. Staffing vacancies will be reviewed on a case-by-case basis. City plans to proceed with 5/1/20 compensation adjustments.
<i>Mount Prospect</i>	Our primary loss of revenue is \$5.6 million, and we are not proposing any layoffs or furloughs. We have proposed the suspension of internal service lease payments to Vehicle Replacement Fund, reduction in training/travel budget, reduction in Programs, use of deductible reserves, as well as the postponement of projects. The total reduction proposed is \$7.0 million, which gives a cushion of 1.4 million in case if the losses are higher than anticipated.
<i>Northbrook</i>	
<i>Skokie</i>	No plan for furloughs or layoffs, considering something of an ERI but nothing definitive.
<i>Wheeling</i>	At this time, we are not considering any of the items you mentioned, but may consider each of them once we have a better idea of what the 2021 budget will look like.
<i>Wilmette</i>	Review of capital expenditures, vehicle purchases, discretionary operating expenditures. No plan for furlough or layoff, review of open positions on a case-by-case basis.

# **FY2020 Financial Analysis**

May 26, 2020

# Revenue Assumptions

- Original projections used variety of methodologies
  - Adjusted budget figures by factor from 3% to 75%
    - Reviewed historical revenue performance
    - Built sales tax from bottom-up
    - Utilized state projections for state distributed revenues
  - Two Scenarios
    - Scenario #1 – Assumes economic recovery starting 3<sup>rd</sup> quarter
    - Scenario #2 – Assumes economic recovery starting 4<sup>th</sup> quarter
- Refined original projections based upon new data points
  - Revenue Performance
  - Updates from Illinois Municipal League (IML) and Cook County
  - Survey of regional communities

# Revenue Assumptions Updates

- Revenue Performance

	Amount	Over/(Under)
April Actual	\$2.19 M	
April Projection	\$2.18 M	\$0.01 M
April Scenario #1	\$1.92 M	\$0.27 M
April Scenario #2	\$1.88 M	\$0.31 M

- Update from IML

- Projections for Income Tax, PPRT, motor fuel, and local use tax

- Update from Cook County

- Timing of Property Tax Distribution

- Survey of regional communities

- Village projections aligned with regional communities

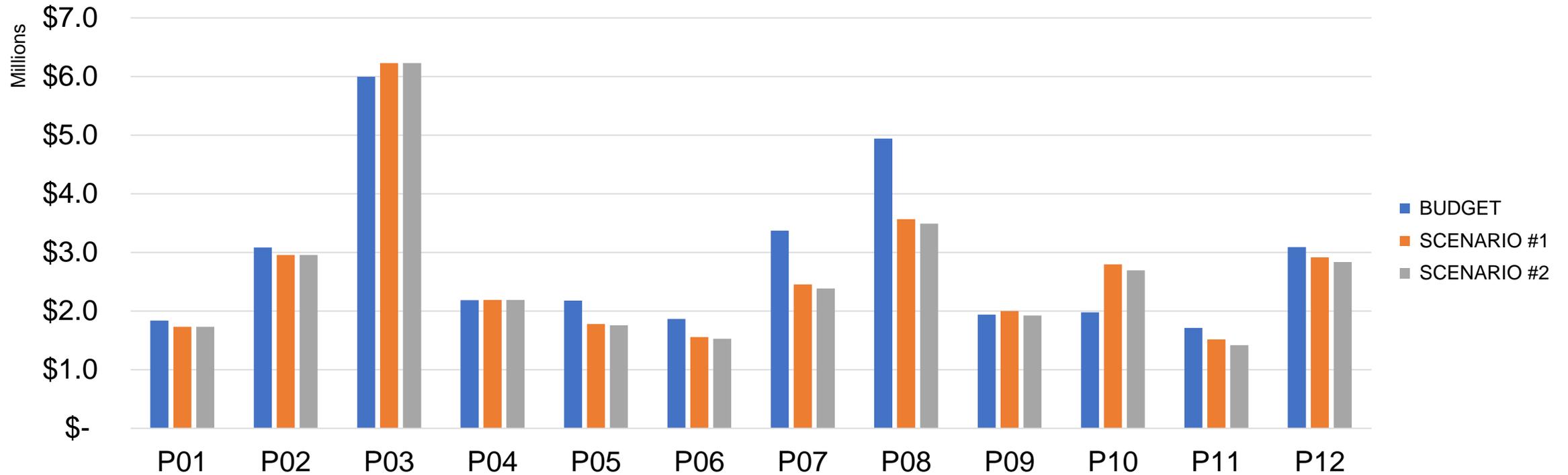
# Revenue Projection Updates

*Change from previous financial model*

	Adjustment	Scenario #1	Scenario #2
Income Tax		(0.20)	(0.02)
Licenses		0.03	0.03
Other (Hotel Tax, PPRT, etc.)		0.06	0.12
Permits		(0.09)	(0.09)
Property Tax		-	-
Real Estate Transfer Tax		-	-
Sales Tax		0.07	0.07
Service Charges		0.05	0.06
Utility Tax		(0.09)	(0.09)

\*In Millions

# Revenue Outcomes – General Fund



	April Model	May Model
<b><i>Budget</i></b>	<b><i>34.17 M</i></b>	<b><i>34.17 M</i></b>
Scenario #1	31.85 M	31.69 M
Scenario #2	31.06 M	31.13 M

# Expense Assumptions

- Original projections used variety of methodologies
  - Operating expense projections based on 3-year trend analysis
    - Personnel, contractual services, commodities
  - Capital expense projections based on project cash flows
    - Neighborhood Storage Project, Central Avenue, Electric Upgrades
- Refined original projections based upon new data points
  - Expense Performance
  - Factored in savings options and additional costs
  - Survey of regional communities

# Expense Assumptions Updates

- Expense Performance

	Amount	Over/(Under)
April Actual	\$2.56 M	
April Projection	\$2.65 M	(\$0.09 M)

- Factor of savings options and incremental expenses

- Savings

- \$300k in operating expenses (winter operations, training, etc.)
    - \$150k in engineering program savings due to bid pricing
      - Maintain engineering maintenance programs (sidewalks, curbs, pavement rejuvenation, traffic calming) at budget due to additional MFT funds
    - \$242k in CERF deferrals, sidewalk snowplow and Council A/V equipment
    - \$200k deferral of Comprehensive Plan

- Additional Costs

- \$531k for economic grant programs

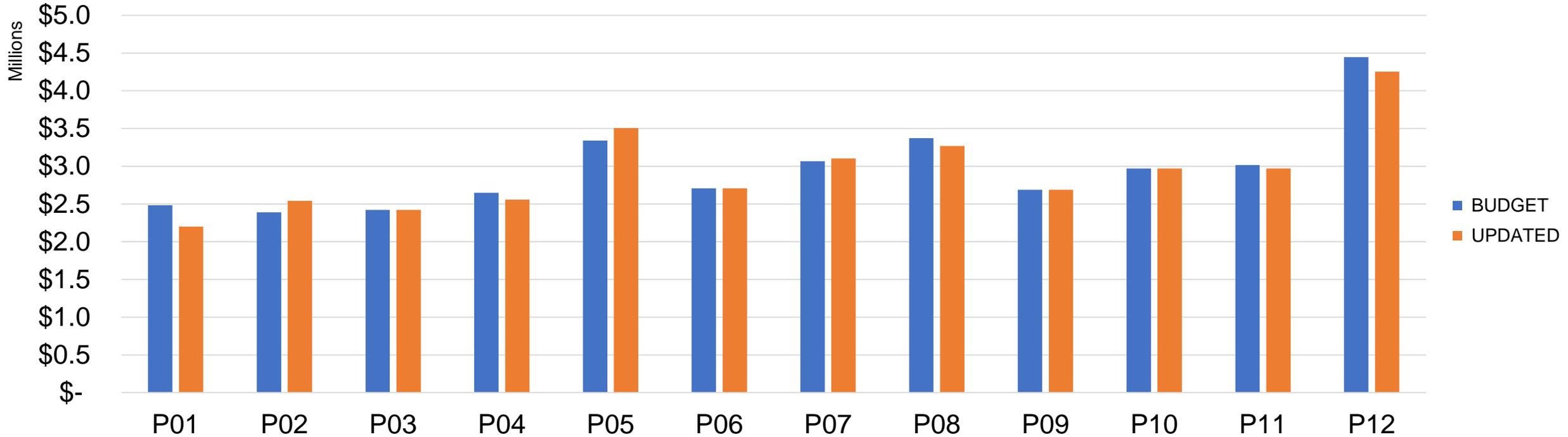
# Pension Slide

- Work towards a 15-Year Rolling Amortization method
- Utilize a mix of property tax increases and reserve allocations
- \$200k reserve contribution still scheduled for August

## Funded Ratio

	Firefighter Pension		Police Pension	
	<i>1/1/2019</i>	<i>1/1/2020</i>	<i>1/1/2019</i>	<i>1/1/2020</i>
Total Actuarial Liability	77.65 M	79.83 M	73.51 M	76.98 M
Actuarial Value of Assets	47.21 M	49.90 M	47.46 M	50.19 M
Unfunded Actuarial Liability	30.43 M	29.93 M	26.05 M	26.79 M
<b>Funded Ratio</b>	<b>60.8%</b>	<b>62.5%</b>	<b>64.6%</b>	<b>65.2%</b>

# Expense Outcomes – General Fund



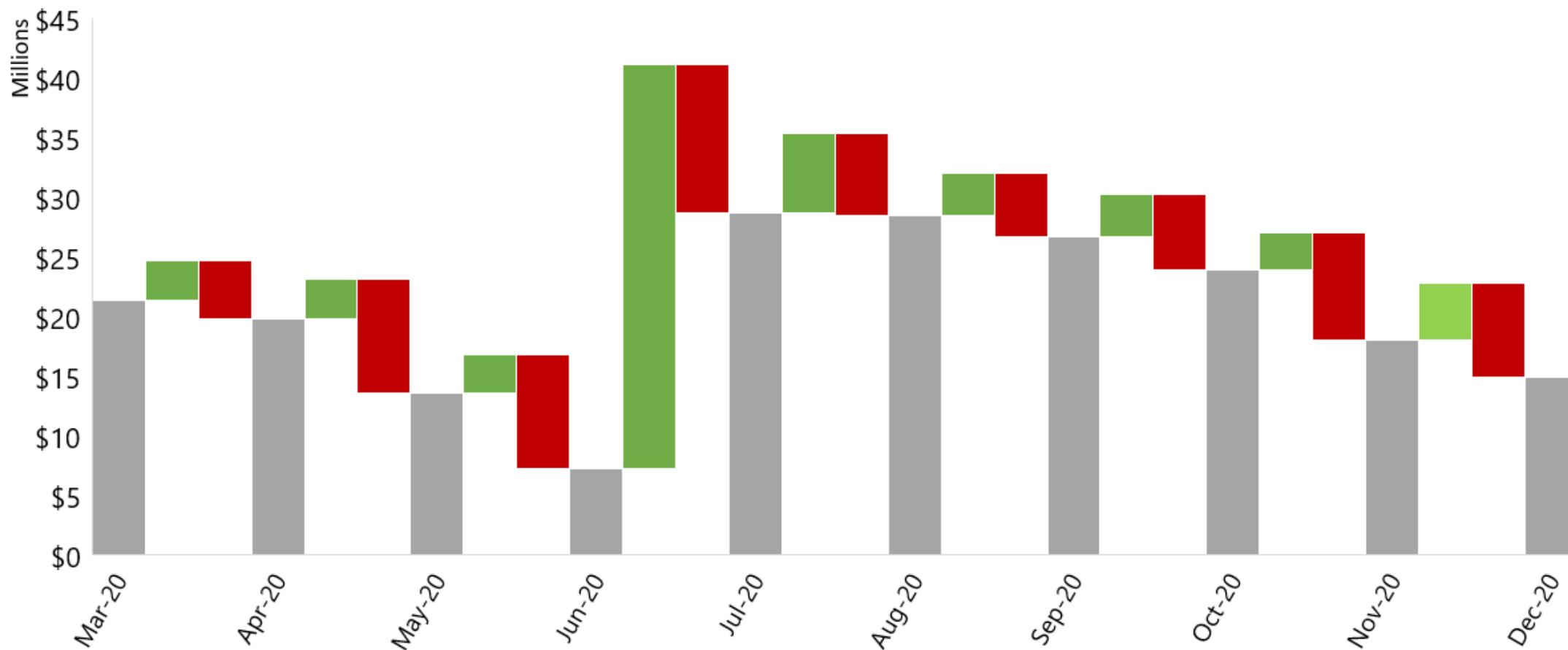
	April Model	May Model
<b><i>Budget</i></b>	<b><i>35.54 M</i></b>	<b><i>35.54 M</i></b>
Projection	35.35 M	35.18 M

# Reserve Projections – General Fund

	Budget	Scenario #1	Scenario #2
2020 Beginning Reserve	\$15.01	\$15.01	\$15.01
Revenues	\$34.17	\$31.69	\$31.13
Expenses	(\$35.54)	(\$35.18)	(\$35.18)
<b>Projected Ending Reserve</b>	<b>\$13.64</b>	<b>\$11.52</b>	<b>\$10.96</b>
% of Operating Expense	38.4%	32.4%	30.8%

*\*In Millions*

# Cash Position – All Funds



# Next Steps

- Refine projections on monthly basis
- Evaluate level of risk for revenue streams
- Monitor state and county for shifts in revenue disbursements
- Watch state and federal government for reimbursement opportunities
- Report findings to the Village Board