



## Village Manager's Office

**SUBJECT:** 2020 Financial Analysis

**MEETING DATE:** April 28, 2020

**FROM:** Melinda Molloy, Finance Director  
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### **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 and is expected to remain in effect for the duration of the Gubernatorial Disaster Proclamation, which currently extends through May 31, 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.

### **Discussion**

#### **Revenues**

Analyzing the financial implications of COVID-19 is primarily focused on the revenue for the Village. While staff is continuing to gather more information that will provide more precise projections, staff is using a variety of methodologies to provide estimates on the potential impacts to the Village's different revenue streams. Staff reviewed the original monthly budget projections and then assessed each revenue individually to rank its sensitivity to the downturn and then assigned a projected downturn factor. Those factors ranged from a 3% reduction in revenues up to a 75% reduction in revenues.

Additionally, staff developed two different scenarios for the revenue impact based upon the duration of COVID-19 and the accompanying financial implications.

- Scenario #1 assumes the re-opening of the economy starting in the 3<sup>rd</sup> Quarter
- Scenario #2 assumes the re-opening of the economy starting in the 4<sup>th</sup> Quarter

In both scenarios, the re-opening timeframe does not mean that revenues will go back to original projections, it assumes that there are structural impacts to the Village's tax base and that there is a gradual recovery of revenues over the remainder of the year and into 2021.

The model also assumes that the Village will continue to receive disbursements of tax revenues on a normal timeline. While the State of Illinois and Cook County have indicated there may be delays of disbursements, neither have provided specific details on those delays. If and when delays are announced, the revenue forecasting model will be updated with that information.

Below are several of the specific revenue projection methodologies used for the financial forecast model.

- *Sales Tax* – Sales tax revenues, including home rules sales tax, were developed from the bottom-up. Staff analyzed the unique business mix of the Village and assigned factors on business type and by month. Overall, staff project a 14% to 16% reduction in sales tax and a 17% to 19% reduction in home rules sales tax in Scenario #1 and Scenario #2 respectively. The reason for the differential between the two sales tax components is that the home rule sales tax does not apply to groceries.
  - *Scenario #1*
    - March – Grocers up 25%; Restaurants and Retailers down 50%
    - April & May – Grocers up 60%; Restaurants down 75%; Retailers down 100%; Pharmacy or Hardware 0%
    - June – Grocers up 30%, Restaurants down 60%, Retailers down 50%
  - *Scenario #2*
    - March – May: Same as Scenario #1
    - June & July – Grocers up 30%; Restaurants down 75%; Retailers down 100%; Pharmacy or Hardware 0%
    - August – Grocers up 25%; Restaurants down 60%; Retailers down 50%; Pharmacy or Hardware 0%
    - September – Grocers up 25%, Restaurants down 40%, Retailers down 50%; Pharmacy or Hardware 0%
- *State Shared Income* – For revenues that are distributed by the State such as income tax, local use tax, PPRT, staff took initial guidance from the Governor’s Office of Management and Budget Revenue Revisions, which were released on April 15. The projections show an estimated 8% to 14% range of reduction for income tax depending on the duration of the economic slowdown, a similar impact was applied to PPRT and at this point there is no adjustment to local use tax (use tax is collected on internet sales which theoretically should increase during the pandemic).
- *Housing Related Revenues* – To determine the potential impact of revenues that are driven by the housing market such as permits, some licenses, and the real estate transfer tax, the Village looked at the economic impact of the great recession from 2007 to 2011. During that timeframe, the Village saw a downturn of 47% in real estate transfer tax and 43% in permits and licenses. The impact on these revenues is not projected to be as significant during this economic slowdown so staff assigned values ranging from 17% to 27% in Scenario #1 and Scenario #2 respectively.

### **Revenue Outcomes**

The 2020 budget for General Fund revenues was \$34.17 million. During the first quarter of 2020, revenues were tracking in line with that value. The below chart layers in the projected impacts of scenario #1 and scenario #2. Currently, the estimated impact range for the General Fund is a revenue reduction from \$2.32 million to \$3.11 million.

Revenue Type	Projection	Scenario #1 Reduction	Scenario #2 Reduction
Grant/Contributions	0.13	-	-
Income Tax	2.90	(0.24)	(0.41)
Licenses	1.65	(0.05)	(0.06)
Other	4.22	(0.45)	(0.58)
Permits	2.08	(0.41)	(0.58)
Property Tax	10.46	-	-
Real Estate Transfer Tax	1.12	(0.24)	(0.33)
Sales Tax	5.38	(0.81)	(0.95)
Service Charges	3.18	(0.12)	(0.21)
Utility Tax	2.00	-	-
Water Fund Transfer	1.05	-	-
<b>Totals</b>	<b>\$ 34.17 M</b>	<b>\$ (2.32) M</b>	<b>\$ (3.11) M</b>
<b>Total Revenue</b>	<b>\$ 34.17 M</b>	<b>\$ 31.85 M</b>	<b>\$ 31.06 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.

Operating expenditures such as personnel costs, contractual services, commodities, and other expenses tend to follow a similar spending pattern year over year. Staff reviewed a three-year history of spending on these categories to develop the baseline spending for the Village. In addition, staff reviewed the timelines and cash flow projections for major capital outlays such as the Neighborhood Storage Project, Electrical Upgrades at the water facilities, Central Avenue Reconstruction, and major capital/vehicle purchases. These projections were layered in with the baseline spending to develop the projected outflows for the Village.

Given the economic uncertainty of COVID-19, staff has identified potential expense savings in the 2020 budget. These savings opportunities attempt to mitigate the impact of the COVID-19 pandemic without major service impacts to our residents. At the April 14, 2020 Village Board meeting staff presented these saving opportunities. These savings totaled \$762,000 and include:

- \$300,000 in operating expenditures
  - This item includes savings for street lighting, winter operations, urban forest management, training, and a variety of other line items
- \$220,000 for the engineering program
  - This item includes bid savings for the street resurfacing program, alley maintenance, brick street maintenance and the deferral of projects including pavement rejuvenation, traffic calming, and some curb/sidewalk replacement.
  - Additional engineering program savings totaling more than \$400,000 will be considered in June and July of this year
- \$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.

The \$300,000 costs savings for operating expenditures have been included in the financial analysis based upon discussions at the April 14, 2020 Village Board meeting. The remaining saving options for the CERF and engineering program have not been included in the financial analysis at this time as those decisions are still pending. If the Village were to implement these savings, it would further minimize the impact of COVID-19 on the Village's cash balances.

**Expense Outcomes**

The 2020 budget for General Fund expenses was \$35.54 million. During the first quarter of 2020, expenses were tracking in line with that value. The below chart layers in the projected changes to the operating budget including \$300,000 in operating expense reductions and the implementation of the Village's business assistance grants. Currently, the estimated expense total for 2020 in the General Fund is \$35.35 million.

	<b>Amount</b>
2020 Budget	\$ 35.54
2020 Updated Projection	\$ 35.35
<b>Differential</b>	<b>\$ (0.19)</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:

	<b>Projection</b>	<b>Scenario #1</b>	<b>Scenario #2</b>
2020 Beginning Reserve	\$ 15.01	\$ 15.01	\$ 15.01
Revenues	\$ 34.17	\$ 31.85	\$ 31.06
Expenses	\$ (35.35)	\$ (35.35)	\$ (35.35)
<b>Projected Ending Reserve</b>	<b>\$13.83</b>	<b>\$ 11.51</b>	<b>\$ 10.72</b>
% of Operating Expense	38.9%	32.3%	30.2%

*\*In millions*

**Next Steps**

From an overall perspective, the Village is 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. However, the extent and duration of the economic slowdown are unknown and Village staff will continue to monitor, analyze, and report to the Village Board as more information is gathered. This data will allow the Village to provide more precise projections and adjust our financial strategy accordingly.

**Attachments**

1. Presentation of COVID-19 Financial Analysis

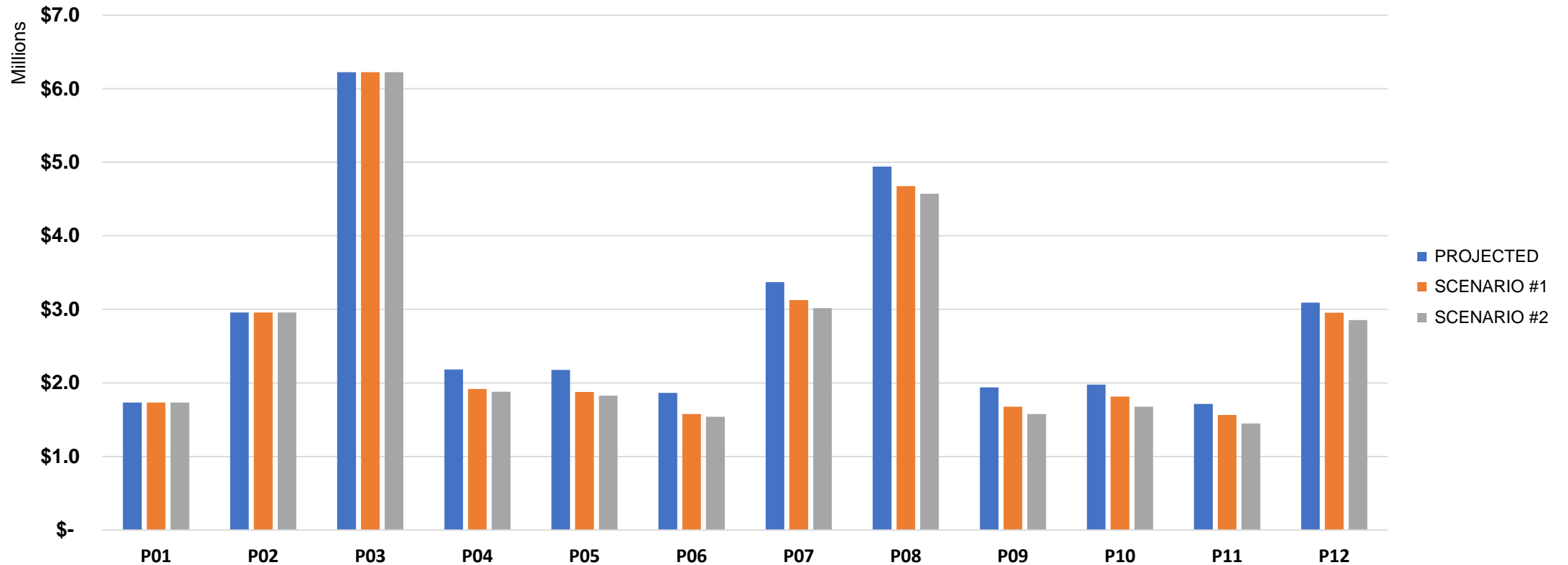
# **FY2020 Financial Analysis**

April 28, 2020

# Revenue Assumptions

- Looked at original monthly budget projections
  - Adjusted projections by factors from 3% to 75% on likelihood of impact
- Impact factors utilized variety of methodologies
  - Built sales tax from bottom-up; analyzed Wilmette's unique business mix
  - Utilized state projections for state distributed revenues
  - Compared to impacts during Great Recession for market driven revenues
- No shift in timing of revenue distributions from state and county
  - Indication there may be delays but no firm actions to date
- Two Scenarios
  - Scenario #1 – Assumes re-opening of economy starting 3<sup>rd</sup> quarter
  - Scenario #2 – Assumes re-opening of economy starting 4<sup>th</sup> quarter

# Revenue Outcomes – General Fund



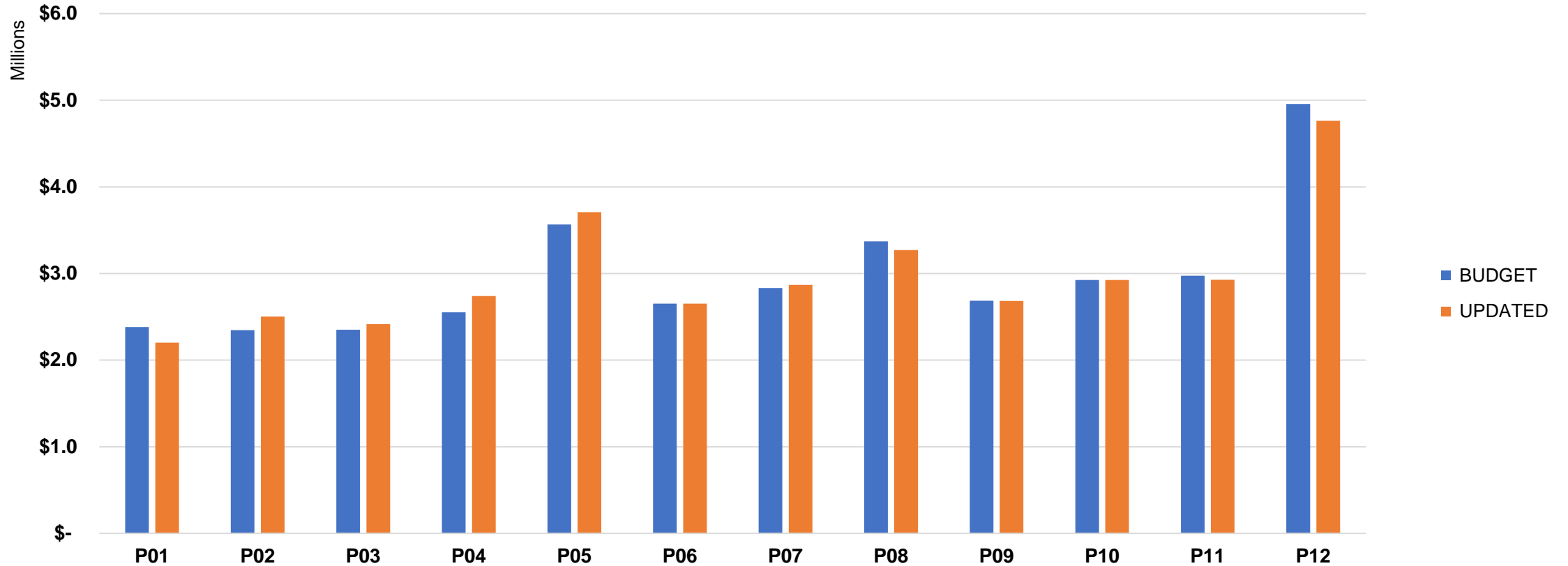
- **Updated projection - \$34.17M**
  - Equal to original budget
- **Scenario #1 - \$31.85M** – \$2.32M differential
- **Scenario #2 - \$31.06M** – \$3.11M differential

# Expense Methodology

- 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
- Cost savings
  - Included operating expense (\$300k);
  - Does not include engineering (\$220k); and CERF (\$242k)
- Village's business assistance program added to projections



# Expense Outcomes – General Fund



- **Original budget - \$35.54M**
- **Updated projection - \$35.35M**

# Reserve Projections – General Fund

- Does not include capital expense reduction options
- Similar Analysis for Water and Sewer Funds
- Continue to monitor Village's cash position

	Projection	Scenario #1	Scenario #2
2020 Beginning Reserve	\$15.01	\$15.01	\$15.01
Revenues	\$34.17	\$31.85	\$31.06
Expenses	(\$35.35)	(\$35.35)	(\$35.35)
<b>Projected Ending Reserve</b>	<b>\$13.83</b>	<b>\$11.51</b>	<b>\$10.72</b>
% of Operating Expense	38.9%	32.3%	30.2%

*\*In Millions*

# Next Steps

- Gather data to provide more precise projections
- Update projections on monthly basis
- Continue to evaluate level of risk for revenue streams
- Monitor state and county for shifts in revenue disbursements
- Watch state and federal government for reimbursement opportunities
- Continue to report findings to the Village Board