



Village Manager's Office

SUBJECT: 2020 Financial Analysis

MEETING DATE: June 23, 2020

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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. 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.

At the May 26, 2020 Village Board meeting, staff presented updated financial projections based upon the Village's actual revenue and expense experience in April.

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 two primary sources:

1. Analysis of Period 5 (May) performance compared to projections
 - Staff reviewed the performance of different revenues compared to the initial budget and the two revenue scenarios. The below chart shows Period 5 performance compared to the original projection and the two revenue scenarios.

| | Amount | Over/(Under) |
|-----------------|-------------|--------------|
| P05 Actual | \$1,573,245 | |
| P05 Projection | \$2,176,355 | (\$603,110) |
| P05 Scenario #1 | \$1,776,791 | (\$203,546) |
| P05 Scenario #2 | \$1,756,158 | (\$182,913) |

Overall, the performance in May was negative comparatively to the budget and to both revenue projection scenarios. May revenues were down 28% compared to budget and 10% down compared to scenario #2. Based upon performance, staff made adjustments to revenue projections moving forward which are discussed below.

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

- The IML provided updated projections for income tax, personal property replacement tax (PPRT), motor fuel tax (MFT), and local use tax. The projections also provide initial guidance regarding 2021 budget development.

In addition to the updates to General Fund revenues, staff made adjustments to the revenue projections for the Sewer Fund and providing an update on the Water Fund projections.

- In the Sewer Fund, staff updated the stormwater fee revenues to begin collection of non-single family residential properties in July and included an adjustment of \$44,188 for detention credits and institutional/501(c)(3) credits.
- In the Water Fund, sales of water to North Maine Utilities were initiated on June 8.

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 3rd Quarter
- Scenario #2 assumes economic recovery starting in the 4th 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 10.2% overall decrease in income tax over the next 12 months. *The current assumption for both scenarios, which is more conservative, will be maintained due to negative performance in Period 5.*
- Personal Property Tax Replacement (PPRT)
 - IML provided updated assumptions for PPRT that project a 25% overall decrease in PPRT compared to the Village's overall decrease of 30%. *Staff is revising the assumption for both scenarios to reduce PPRT revenue to IML's 25% overall reduction.*
- Fuel Tax
 - IML projected a 15% decrease in statewide Motor Fuel Tax (MFT) receipts. Staff assumed a 40% reduction in period five in the updated scenarios and fuel tax receipts were down 84% in period five. Staff will utilize the local trend and use more conservative values. *Staff is revising the assumption for both scenarios and to reduce fuel tax revenues by a total of 75% for period six and reduce revenues*

by an additional 10% in quarter three in both scenarios. Note that some of the negative impact from Period 5 is due to delayed remittance by local fuel retailers.

- Hotel Tax
 - The original reduction assumption for period five ranged from 45% to 65% in hotel tax. In period five, revenue was down 87%. *Staff is revising the assumption for both scenarios to reduce revenues by a total of 75% for period six and reduce revenues by an additional 10% in quarter three in both scenarios.*
- Licenses
 - Licenses, which includes business, contractor, and liquor licenses and vehicle stickers aligned with period five performance in both scenarios. *The current assumption for both scenarios will be maintained.*
- Permits
 - The original assumption for period five in the two original scenarios projected a 45% reduction in permits. In period five, revenue was down 49% compared to budget. *The current assumption for both scenarios will be maintained.*
- Real Estate Transfer Tax
 - The original assumption for period five in the two original scenarios projected a 40% reduction in real estate transfer tax. In period five, revenue was down 35% compared to budget. *The current assumption for both scenarios will be maintained.*
- Sales Tax
 - The original assumption for period five in the two original scenarios projected a 5% decrease in sales tax (municipal tax) and a 7.5% reduction in home rule sales tax. In period five, municipal tax revenues increased 2% and home rule sales tax revenues decreased 13%. The revenues received in May are related to February sales, therefore the direct 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 3% for May collections. While municipal tax is performing well, home rule sales tax has started to decrease dramatically, and staff anticipates worsening figures in period six. *The current assumption for municipal sales tax will be maintained. Staff is revising the assumption for home rule sales tax to reduce revenues by a range of 10-15% in quarter three and four in both scenarios.*
- Ambulance Billing
 - This item is budgeted in service charges, the original assumption included no reductions to revenues. However, ambulance transport fees have been down 6% over the first five periods of 2020. *Staff is revising the assumption for both scenarios to reduced revenues by 5% for the remainder of the year.*
- Locally Collected Fines
 - The original assumption included a range of 2.5% to 10% reduction depending on the scenario. However, locally collected fines, which includes parking tickets and other traffic tickets, have been down 43% over the first five periods of 2020 and down 73% in period five. *Staff is revising the assumption for both scenarios to reduced revenues by 65% in period six and 45% in quarter three.*
- Utility Taxes
 - The original assumption for utility taxes included no reduction to revenues. However, utility taxes are trending 9% 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 20% for the remainder of the year.

Revenue Outcomes

The revenue outcomes combine both period five performance and updated revenue assumptions for both scenarios. The 2020 budget for General Fund revenues is \$34.17 million. During the first five periods of 2020, revenues tracked 4% below budget. The below chart layers in the updated impacts of scenario #1 and scenario #2 and shows the total reduction from budget.

The arrows indicate the change from the updated assumptions presented in May; 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 \$2.91 million to \$3.49 million. Attachment #1 shows the changes in the scenario projections from March through April.

| Revenue Type | Budget | Scenario #1 Reduction | Scenario #2 Reduction |
|--------------------------|-------------------|-----------------------|-----------------------|
| Grant/Contributions | 0.13 | - | - |
| Income Tax | 2.92 | (0.51) | (0.51) |
| Licenses | 1.84 | (0.20) | (0.21) |
| Other | 4.11 | (0.45) | (0.52) |
| Permits | 2.02 | (0.45) | (0.62) |
| Property Tax | 10.37 | - | - |
| Real Estate Transfer Tax | 1.08 | (0.19) | (0.28) |
| Sales Tax | 5.41 | (0.86) | (1.05) |
| Service Charges | 3.18 | (0.07) | (0.13) |
| Utility Tax | 2.05 | (0.16) | (0.16) |
| Water Fund Transfer | 1.05 | - | - |
| Totals | \$ 34.17 M | \$ (2.91) M | \$ (3.49) M |
| Total Revenue | \$ 34.17 M | \$ 31.26 M | \$ 30.68 M |

*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 two primary sources:

1. Analysis of Period 5 (May) performance compared to projections

Staff reviewed the performance of expenses compared to the initial budget. The below chart shows Period 5 performance compared to the original projection. Overall, the performance in May was positive compared to the budget. May expenses were down 5.4% compared to budget.

| | Amount | Over/(Under) |
|----------------|-------------|--------------|
| P05 Actual | \$2,394,429 | |
| P05 Projection | \$2,531,688 | (\$137,259) |

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
 - \$354,000 in operating expenditures –Includes savings for personnel due to vacancies, street lighting, winter operations, vehicle costs such as fuel and maintenance, urban forestry, training and a variety of other line items.
 - \$150,000 for the engineering program – Includes bid savings for the street resurfacing program, alley maintenance, and brick street maintenance.
 - \$242,000 for capital equipment replacement fund (CERF) –Includes the deferral of the sidewalk snowplow and council chambers A/V 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.
 - Based upon Village Board discussion, unspent grant funds have been shifted to October for the potential distribution of additional grants to local businesses.

In addition to the updates to General Fund expenses, staff made adjustments to capital expenses in both the Sewer Fund and the Water Fund. These shifts were due to timing of payments for major projects including the Neighborhood Storage Project and improvements to the Water Plant.

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 \$35.13 million. This is a \$170 thousand decrease from the prior period projections and shows an overall savings of approximately \$410 thousand in 2020.

| | Amount |
|-------------------------|------------------|
| 2020 Budget | \$ 35.54 |
| 2020 Updated Projection | \$ 35.13 ↓ |
| Differential | \$ (0.41) |

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 | \$ 31.26 | \$ 30.68 |
| Expenses | \$ (35.54) | \$ (35.13) | \$ (35.13) |
| Projected Ending Reserve | \$13.64 | \$ 11.14 ↓ | \$ 10.56 ↓ |
| % of Operating Expense | 38.4% | 31.3% | 29.7% |

**In millions*

Cash Impact

Across the Village's three primary funds; the General Fund, the Water Fund, and the Sewer Fund the Village had \$19.8 million in cash available to fund operations at the end of April. Based upon May activity, the Village ended May with \$19.4 million in cash. Utilizing the projections for revenues and expenses, staff expects that cash will be drawn down to a low value of \$12.3 million at 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 continues to feel 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. Revenue Scenario Projection Updates
2. Budget Calendar
3. Presentation of COVID-19 Financial Analysis

2020 Financial Analysis

Revenue Reduction Scenario Changes

| | Budget | April Model | May Model | June Model | May to June Change (\$) | May to June Change (%) | Overall Change (%) |
|--------------------------|-------------------|--------------------|--------------------|--------------------|----------------------------|---------------------------|-----------------------|
| GRANT/CONTRIBUTIONS | 130,000 | - | - | - | - | | 0.0% |
| INCOME TAX | 2,919,000 | (258,215) | (456,307) | (512,958) | (56,650) | -12.4% | -17.6% |
| LICENSES | 1,836,500 | (228,210) | (201,232) | (198,880) | 2,352 | 1.2% | -10.8% |
| OTHER | 4,110,710 | (346,331) | (284,480) | (454,438) | (169,958) | -59.7% | -11.1% |
| PERMITS | 2,023,500 | (352,303) | (442,272) | (451,293) | (9,021) | -2.0% | -22.3% |
| PROPERTY TAX | 10,374,800 | (0) | (0) | (1) | (0) | -81.3% | 0.0% |
| REAL ESTATE TRANSFER TAX | 1,080,000 | (201,788) | (198,332) | (192,623) | 5,709 | 2.9% | -17.8% |
| SALES TAX | 5,409,000 | (841,114) | (771,842) | (862,903) | (91,061) | -11.8% | -16.0% |
| SERVICE CHARGES | 3,178,900 | (117,412) | (69,209) | (72,164) | (2,954) | -4.3% | -2.3% |
| UTILITY TAX | 2,053,000 | (54,819) | (140,638) | (163,920) | (23,282) | -16.6% | -8.0% |
| WATER FUND TRANSFER | 1,050,000 | - | - | - | - | | 0.0% |
| Grand Total | 34,165,410 | (2,400,194) | (2,564,313) | (2,909,179) | (344,867) | -13.4% | -8.5% |

| | Budget | April Model | May Model | June Model | May to June Change (\$) | May to June Change (%) | Overall Change (%) |
|--------------------------|-------------------|--------------------|--------------------|--------------------|----------------------------|---------------------------|-----------------------|
| GRANT/CONTRIBUTIONS | 130,000 | - | - | - | - | | 0.0% |
| INCOME TAX | 2,919,000 | (431,365) | (456,307) | (512,958) | (56,650) | -12.4% | -17.6% |
| LICENSES | 1,836,500 | (244,408) | (216,894) | (214,298) | 2,596 | 1.2% | -11.7% |
| OTHER | 4,110,710 | (476,175) | (359,610) | (521,432) | (161,822) | -45.0% | -12.7% |
| PERMITS | 2,023,500 | (520,024) | (609,993) | (619,018) | (9,025) | -1.5% | -30.6% |
| PROPERTY TAX | 10,374,800 | (0) | (0) | (1) | (0) | -81.3% | 0.0% |
| REAL ESTATE TRANSFER TAX | 1,080,000 | (286,621) | (283,165) | (277,456) | 5,709 | 2.0% | -25.7% |
| SALES TAX | 5,409,000 | (976,803) | (907,531) | (1,045,383) | (137,852) | -15.2% | -19.3% |
| SERVICE CHARGES | 3,178,900 | (201,998) | (142,118) | (134,440) | 7,679 | 5.4% | -4.2% |
| UTILITY TAX | 2,053,000 | (54,819) | (140,638) | (163,920) | (23,282) | -16.6% | -8.0% |
| WATER FUND TRANSFER | 1,050,000 | - | - | - | - | | 0.0% |
| Grand Total | 34,165,410 | (3,192,213) | (3,116,256) | (3,488,905) | (372,648) | -12.0% | -10.2% |

BUDGET PREPARATION SCHEDULE
Development and Review of 2021 Proposed Budget

| ITEM | DATES |
|---|--------------------------|
| Capital Improvements Program (CIP) Preparation Materials | May 28 |
| CIP Materials Due | June 26 |
| CIP Review – Departments meet with Budget Team | July 13 to July 24 |
| Operating Budget Preparation Materials | June 19 |
| Operating Budget Materials Dues | July 24 |
| Operating Budget Review – Departments meet with Budget Team | August 10 to August 21 |
| Village Board – Mid-Year Financial Review | August 25 (Tues) |
| Village C.O.W. – CIP Workshop #1 | September 2 (Wed) |
| Village C.O.W. – CIP Workshop #2 <i>(if necessary)</i> | September 16 (Wed) |
| Issue 2021 Tentative Budget to Village Board Make Available for Public Inspection on Website, Clerk's Office & Library | October 12 |
| Village Board <ul style="list-style-type: none"> • Notification Tentative Budget is available for Public Inspection • Estimate of Property Tax Levy/Intent to Adopt Levy | October 13 (Tues) |
| Village Board and Staff Budget Review <i>(individual meetings)</i> | October 19 to October 23 |
| Village C.O.W. –Tentative Budget Workshop #1 | October 29 (Thurs) |
| Village C.O.W. –Tentative Budget Workshop #2 <i>(if necessary)</i> | November 5 (Thurs) |
| Notice of Budget Public Hearing to Paper | November 6 |
| Village Board <ul style="list-style-type: none"> • Introduction of Ordinance regarding 2021 Tentative Budget | November 10* (Tues) |
| Notice of Budget Public Hearing appears in paper <i>(requirement is not less than 7 days prior to hearing)</i> | November 15 |
| Notice of Property Tax Levy to paper | November 20 |
| Village Board <ul style="list-style-type: none"> • Hold Public Hearing on Tentative Budget • Adoption of Ordinance Approving Annual Budget • Introduction of Ordinances regarding 2020 Property Tax Levy & Abatement | November 24* (Tues) |
| Notice of Property Tax Levy and Truth-In-Taxation Hearings appears in paper <i>(requirement of not more than 14 days nor less than 7 day prior to adoption)</i> | November 29 |
| Village Board <ul style="list-style-type: none"> • Conduct Truth-In-Taxation Hearings • Adoption of Ordinance Approving 2020 Tax Levy & Abatement Ordinances | December 8* (Tues) |
| File 2021 Budget File 2020 Property Tax Levy & Abatement Ordinances | December 24* |

**Last Day for Required Action*



FY2020 Financial Analysis

June 23, 2020

Revenue Assumptions

- Original projections used variety of methodologies
 - Adjusted budget figures by factor from 3% to 75%
 - Two Scenarios
 - Scenario #1 – Assumes economic recovery starting 3rd quarter
 - Scenario #2 – Assumes economic recovery starting 4th quarter
- Refined original projections based upon new data points
 - Revenue Performance
 - Updates from Illinois Municipal League (IML)
- Non-General Fund Revenues
 - Adjusted stormwater fee to include detention and institutional credits
 - North Maine water sales came online June 8

Revenue Assumptions Updates

- Revenue Performance

- Performed 28% below budget and 10% below scenario #2

| | Amount | Over/(Under) |
|-----------------|----------|--------------|
| May Actual | \$1.57 M | |
| May Projection | \$2.18 M | (\$0.60 M) |
| May Scenario #1 | \$1.78 M | (\$0.20 M) |
| May Scenario #2 | \$1.76 M | (\$0.18 M) |

- Update from IML

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

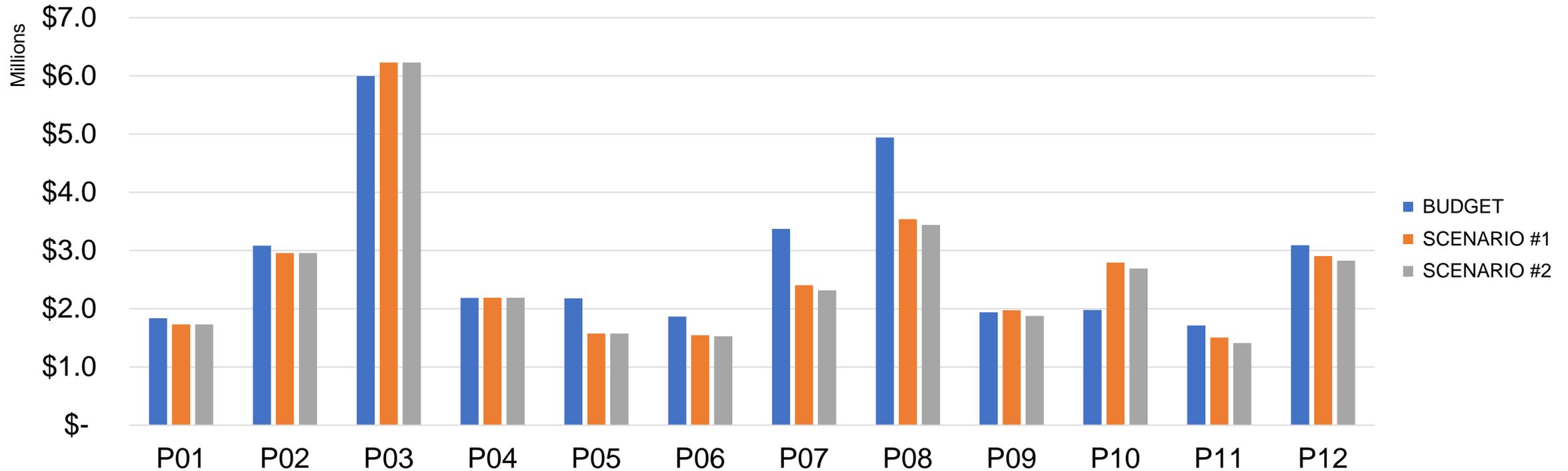
Revenue Projection Updates

Incremental change from financial model presented in May

| | Adjustment | Scenario #1 | Scenario #2 |
|-------------------------------|---|-------------|-------------|
| Income Tax |  | (0.06) | (0.06) |
| Licenses |  | - | - |
| Other (Hotel Tax, PPRT, Fuel) |  | (0.17) | (0.16) |
| Permits |  | (0.01) | (0.01) |
| Property Tax |  | - | - |
| Real Estate Transfer Tax |  | 0.01 | 0.01 |
| Sales Tax |  | (0.09) | (0.14) |
| Service Charges |  | - | - |
| Utility Tax |  | (0.02) | (0.02) |

*In Millions

Revenue Outcomes – General Fund



| | April Model | May Model | June Model |
|----------------------|-----------------------|-----------------------|-----------------------|
| <i>Budget</i> | <i>34.17 M</i> | <i>34.17 M</i> | <i>34.17 M</i> |
| Scenario #1 | 31.76 M | 31.60 M | 31.26 M |
| Scenario #2 | 30.97 M | 31.05 M | 30.68 M |

Expense Assumptions

- Original projections used variety of methodologies
 - Operating expense projections based on 3-year trend analysis
 - Personnel, contractual services, commodities
- Refined original projections based upon new data points
 - Expense Performance
 - Factored in savings options and additional costs
- Non-General Fund Expenses
 - Capital expense projections based on project cash flows
 - Neighborhood Storage Project, Central Avenue, Electric Upgrades
 - Shift in timing of payments for major capital projects - NSP

Expense Assumptions Updates

- Expense Performance

- Performed 5.4% below budget

| | Amount | Over/(Under) |
|----------------|----------|--------------|
| May Actual | \$2.39 M | |
| May Projection | \$2.53 M | (\$0.14 M) |

- Factor of savings options and incremental expenses

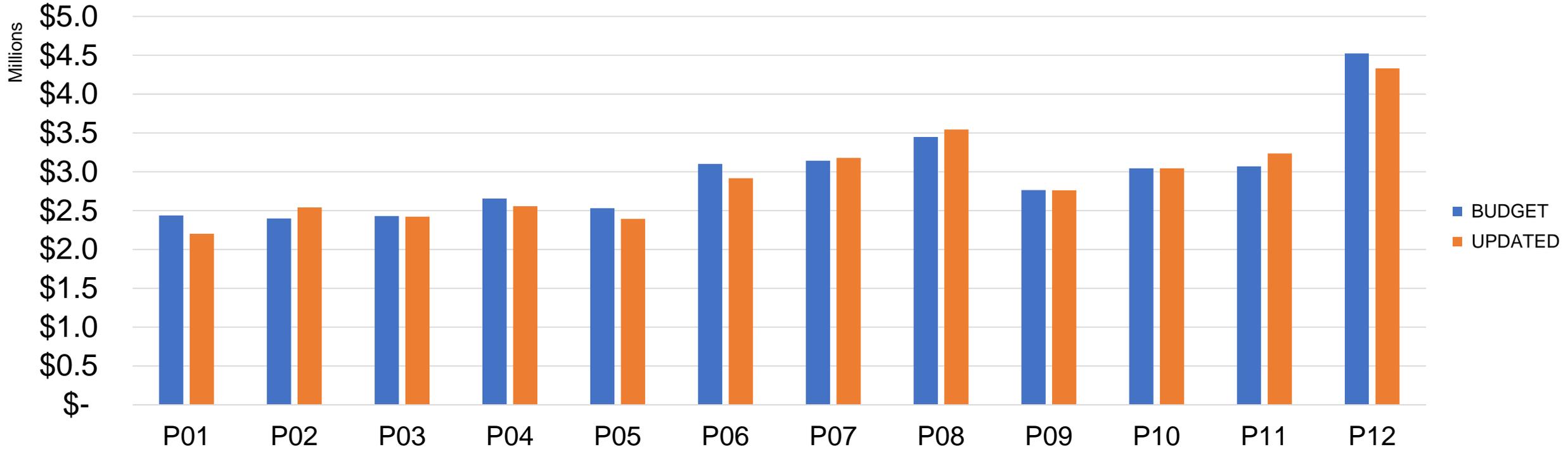
- Savings

- \$354k in operating expenses
 - \$174k in personnel; \$77k in automotive expense; \$65k training; and \$38k in other contracts/commodities
- \$150k in engineering program savings due to bid pricing
 - Maintain engineering maintenance programs (sidewalks, curbs, pavement rejuvenation, traffic calming)
- \$242k in CERF deferrals, sidewalk snowplow and Council A/V equipment
- \$200k deferral of Comprehensive Plan

- Additional Costs

- \$531k for economic grant programs

Expense Outcomes – General Fund



| | April Model | May Model | June Model |
|----------------------|-----------------------|-----------------------|-----------------------|
| <i>Budget</i> | <i>35.54 M</i> | <i>35.54 M</i> | <i>35.54 M</i> |
| Projection | 35.35 M | 35.18 M | 35.13 M |

Reserve Projections – General Fund

| | Budget | Scenario #1 | Scenario #2 |
|---------------------------------|----------------|----------------|----------------|
| 2020 Beginning Reserve | \$15.01 | \$15.01 | \$15.01 |
| Revenues | \$34.17 | \$31.26 | \$30.68 |
| Expenses | (\$35.54) | (\$35.13) | (\$35.13) |
| Projected Ending Reserve | \$13.64 | \$11.14 | \$10.64 |
| % of Operating Expense | 38.4% | 31.3% | 29.7% |

**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

Budget Calendar

| Body | Item | Date |
|------------------------|--|-------------------------|
| Village Board | Mid-Year Financial Review | Tuesday, August 25 |
| Committee of the Whole | CIP Workshop #1 | Wednesday, September 2 |
| Committee of the Whole | CIP Workshop #2 (<i>if necessary</i>) | Wednesday, September 16 |
| Village Board | Issue 2021 Budget | Tuesday, October 13 |
| Committee of the Whole | Budget Workshop #1 | Thursday, October 29 |
| Committee of the Whole | Budget Workshop #2 (<i>if necessary</i>) | Thursday, November 5 |
| Village Board | Adopt 2021 Budget | Tuesday, November 24 |
| Village Board | Adopt Tax Levy | Tuesday, December 8 |