



Legislation Details (With Text)

**File #:** 20-699      **Version:** 1

**Type:** Report      **Status:** Agenda Ready

**File created:** 6/8/2020      **In control:** City Council

**On agenda:** 6/16/2020      **Final action:**

**Title:** Receive the June 2020 Financial Report

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:**

Date	Ver.	Action By	Action	Result
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**CITY COUNCIL AGENDA ITEM**

**ACTION REQUESTED:**

Receive the June 2020 Financial Report

**DEPARTMENT:** Finance Department

**SUBMITTED BY:** Rachel Mayer, Finance Director

**BOARD/COMMISSION REVIEW:**

N/A

**BACKGROUND:**

The City, region, and nation continue to experience the ongoing effects of the COVID-19 pandemic that began in mid-March. Understanding this significant event will have a monetary impact, staff is continually monitoring the City’s financial position. To provide Council with current data to make strategic financial decisions at the appropriate time, staff is bringing a monthly financial report before the Council at its second meeting of each month.

**DISCUSSION**

***New Information***

Ongoing developments and actions from various levels of government continue to shape the pandemic’s financial impact to the City. Since the May 19 Council meeting, the following new events occurred:

- **Phase 3 of Restore Illinois:** Naperville, along with the rest of the state, moved into Phase 3 of Governor Pritzker’s Restore Illinois plan. The phase loosens numerous previous restrictions, including allowing retail stores to re-open with safety plans in place, among others. In addition, restaurants and bars are now allowed to provide outdoor seating and service to patrons, which was not expected to occur until Phase 4. Through an executive order issued May 28, the City outlined a process through which establishments could open, create

or expand outdoor seating, including use of public sidewalks and the public way.

- **Civil Unrest:** In late May and early June, many areas of the country, including Naperville, experienced incidents of civil unrest. This could have a financial impact to the City through additional expenses, such as overtime in police, fire, and public works. In addition, the proximity of incidents to Naperville’s downtown and resulting suspension to outdoor dining for a period of time during the first week of June could impact tax revenues from these sources.
- **First post-COVID sales tax receipts:** Staff received the first state tax receipts from the period following the onset of COVID-19, which will be discussed in greater detail in the revenue portion of this memo.
- **Recession announced:** The National Bureau of Economic Research announced the U.S. started a recession in March, ending 128 months of economic expansion.
- **Federal Reserve updates:** The Federal Reserve’s latest statement indicated interest rates will remain near zero through 2022. Efforts to prop up the economy through bond purchasing will continue for the foreseeable future. The Federal Reserve anticipates a recovery in employment and predicts unemployment rates will fall to 9% by the end of 2020 and 6.5% by the end of 2021. National unemployment currently sits near 13%.

**Revenues Update**

Naperville is beginning to receive its first post-COVID revenue figures, including state sales tax, state income tax, home rule sales tax, local use tax and state motor fuel taxes.

**Property taxes**

The City received the first installment of property taxes from both Will and DuPage counties in May and June. Those receipts equated to just under 30% of the budgeted amount, which is in line with previous years.

Revenue	Actuals	Budget	% to Budget
City	2.35	8.07	29.2%
Fire Pension	2.73	9.15	29.8%
Police Pension	2.00	6.73	29.8%
Debt Service	2.89	9.90	29.2%
Water St. TIF	0.01	0.28	4.2%
SSAs	0.24	1.18	20.6%
Library	4.45	14.94	29.8%
Settlement	0.82	2.80	29.2%
<b>Total</b>	<b>\$ 15.49</b>	<b>\$ 53.04</b>	<b>29.2%</b>
<b>\$ in millions</b>			

**State revenues**

The City’s actual revenue continued to outpace projections on state shared taxes through May; however, this margin narrowed approximately \$333,000 after May deposits were recorded. Sales, state income and motor fuel tax receipts were all below projections for May. The most significant impact was in state income tax, which was more than 20% below projection. Part of the reduction appears to be a flattening of state payments, which surged in May the previous two years, possibly due to the deferred income tax filing deadline. Overall, state shared taxes continue to outpace projections by \$1.94 million. The time delay in reporting is likely causing actuals to remain relatively

in line with initial projections. Declines are likely to become more noticeable in the coming months.

Revenue	Projection (through May)	Actual (through May)	Diff (\$)
Sales Tax	14,034,579	14,585,619	551,040
State Income Tax	6,682,522	6,778,253	95,731
HRST	5,024,765	5,769,167	744,402
Motor Fuel Tax	2,284,250	2,466,634	182,384
Local Use Tax	1,950,199	2,315,137	364,937
<b>Totals</b>	<b>\$29,976,315</b>	<b>\$31,914,809</b>	<b>\$1,938,494</b>

State revenues received in early June that reflect activity for the month of March begin to show the economic impact of the stay-in-place order on the state and local economy. Sales tax receipts declined 20% from projections, while home rule sales tax revenues were 10% below projections. State income tax payments declined nearly 18%. The City continues to see positive trends in local use taxes with June receipts being 18% above projections. The state did not issue payment on motor fuel taxes at the time of this report but staff anticipates a decline in receipts.

### June State Shared Taxes

Revenue	Projection	Actual	Diff (\$)	Change (%)
Sales Tax	2,953,031	2,349,199	(603,832)	-20.4
State Income Tax	1,117,726	920,808	(196,918)	-17.6
HRST	1,000,363	895,062	(105,301)	-10.5
Motor Fuel Tax	432,041	346,257	(85,784)	-19.9
Local Use Tax	393,896	466,246	72,350	18.4
<b>Totals</b>	<b>\$ 5,897,057</b>	<b>\$ 4,977,572</b>	<b>(\$ 919,485)</b>	<b>-15.6%</b>

Although each municipality is unique, a comparison of year over year sales tax receipts for the month of June (2019 vs. 2020) shows that the City is in line with home rule sales tax revenue declines statewide at -19%. State sales tax declines of -18% are lower than the statewide average of -14%, likely due to reduced auto sales.

The Illinois Municipal League issued revised MFY2021 projections for LGDF and other state-shared revenues on June 9, 2020. IML revised their LGDF forecast downward by 7.3% and overall per-capita shared revenue forecast downward by 7.9% from the December forecast. This published revision is a lesser decline than the previous guidance issued by IML that staff included in the May report, which cited a 15% decline in LGDF.

### Local revenues

Staff is tracking local recovery through certain visitor data, including the seven-day average of night and weekend downtown parking garage occupancy. This can be seen as a measure of usage of those downtown businesses that generate sales tax; usage year-over-year hit a low in early April with a 90% reduction from that same time in 2019. Since that time, usage has rebounded to a 68% reduction from this time in June last year.

Reporting on local tax receipts have begun to normalize after initial disruption in activity due to the pandemic's onset and executive orders allowing for a delay in submitting dollars to the City. Local businesses have returned to submitting sales on their usual schedule; to better assist this population, the City is creating an online submission format using GovQA and anticipates implementation by July.

Food and beverage receipts are trending down in total, which was expected.

Month	Food & Beverage	Hotel/Motel	Local Gas
January	336	2	28
February	284	-	28
March	266	19	28
April	242	-	27
<b>Total Receipts</b>	<b>1,128</b>	<b>21</b>	<b>111</b>

Overall taxable sales continued to show a decline. Delayed reporting by businesses and reconciliation of receipts are reflected in an updated table below for the first four months of the year. Looking at monthly trends, April receipts showed significant declines in food and beverage and local gasoline sales taxes. Food and beverage sales dropped more than 35% the past two months, including a nearly 40% decline in April. Local gasoline taxes also declined 46% in April following a 25% drop in March. The one local tax trending in a positive direction is real estate transfer tax, which dropped 25% in April but increased 44% in May. The real estate market has maintained some strength in the community, likely aided by low interest rates.

Month	Food & Beverage	Hotel/Motel	Local Gas	Real Estate
January	34.62	0.85	5.38	66.11
February	30.54	-	5.27	67.11
March	20.52	-	4.21	88.17
April	12.75	6.86	2.29	71.07
<b>Totals</b>	<b>\$ 98.43</b>	<b>\$ 7.71</b>	<b>\$ 17.14</b>	<b>\$ 292.46</b>
<b>\$ in millions</b>				

In March, the Governor issued an executive order placing a moratorium on utility shut-offs for late/delinquent accounts. This order remains in effect and anticipated to remain in place through June. The resulting impact on collection of utility fees is notable.

Year	Eligible Accounts through June 8	Total Delinquent (\$)
2019	800	\$242,939
2020	3,596	\$1,646,593

**Grant Opportunities**

Staff continues to research and identify grant opportunities, both from a revenue recoup perspective as well as a community assistance one. The City has formed a grant team with liaisons from all departments to best coordinate requests and identify grant opportunities.

Notable movement in this area includes the City’s continued pursuit through the DuPage Mayor’s and Manager’s Conference (DMMC) of CARES Act dollars. DuPage County received a direct allocation of \$161 million from the federal government through the act and has indicated its agreement to reimburse member municipalities for COVID-19 expenses from March 1 to May 30. DMMC is requesting that dollars be allocated on a \$51.84 per capita basis in alignment with how the state is allocating dollars to municipalities in counties that did not receive a federal allocation. Requests are due to the county this month; Naperville plans to submit for dollars related to public safety payroll costs, payments for COVID-19 related services and required purchases. In addition to CARES Act dollars, the Fire Department is currently pursuing a FEMA public assistance grant.

During the New Business portion of the June 2 City Council meeting, Council indicated support for staff to begin researching a program to assist businesses with recovery in the aftermath of the June 1 civil unrest. Staff is researching the development of strategic and targeted recovery programs for both this incident and the pandemic that would minimize administrative oversight and allow for appropriate future financial planning by the City.

**Updated Projections and Risk Assessments**

Staff continues to monitor revenues and expenditures monthly. June receipts for state shared tax revenues are the first post-COVID look at several major City revenues. Additional monthly revenue data, as well as information regarding the transition to Phase 4 and Phase 5, will assist in formulating revisions to full-year projections.

Revenue Source	Level of Risk	Reasoning
Food and Beverage Taxes	High	Restaurant/Bar service restrictions remain in place during Phase 3.
Hotel/Motel Taxes	High	Travel and leisure activity severely limited by stay-at-home order.
State Sales Taxes	Medium	June receipts indicate significant declines. Advancement into Phases 3 & 4 may mitigate risk as more retailers open for business.
Income Taxes	Medium	June receipts indicate significant declines. Revenue is tied to statewide employment activity, not the local economy. Advancement into Phases 3 & 4 should improve statewide employment activity.
Motor Fuel Tax/ Local Gas Tax	Medium	Fewer people driving and the time it takes to move into future recovery phases will impact this risk moving forward. The look of public transportation services post stay-at-home order could also have an impact on gasoline usage.
Ambulance Fees	Medium	Calls for service declined significantly in March, April, and May but have returned to near-normal numbers.
Property Taxes	Low	First installment in line with previous collection years.

### **Expenditures Update**

Declining revenues continue to be offset by expenditure reductions across several categories. Last month, staff identified \$3.7 million in expense reductions. Through May, expenses were \$3.5 million below projections, excluding the utility funds. Many of the same areas noted in the May report continue to show significant savings.

While savings may continue in some areas, staff is seeing a normalization in spending in others. For example, healthcare expenses are currently \$1.75M below projections but June payments are beginning to increase as healthcare facilities resume normal operations. Overtime is another spending category that saw significant reductions prior to June; however, recent events associated with local civil unrest will increase overtime in several departments. It is too soon to estimate the full financial impact of these events, however, overtime hours for the period May 31 - June 9 show some of the costs incurred.

<b>Department</b>	<b>Overtime Hours</b>	<b>Total Expense</b>
<b>Police</b>	1,711.25	126,098.10
<b>DPW</b>	198.75	10,320.58
<b>Fire</b>	94.5	6,335.85
<b>Total</b>	<b>2,004.5</b>	<b>142,754.53</b>

Reduced spending is likely to continue in certain areas, such as training and travel, because of the COVID-19 statewide restrictions. Additional cancellations of special events will also result in cost savings; however, revenues may be impacted by these cancellations as well.

Direct expenses related to COVID-19 are also becoming clear. Through the first part of June, more than \$101,000 has been spent on items related to COVID-19. More than \$81,000 was recorded between March and May. Most expenses have been associated with custodial and operating supplies, which account for nearly \$45,000 in additional expenses. The next highest costs are related to technology and software updates, which total more than \$29,000. Some of these costs may be reimbursable through various grants being pursued by staff.

The city's utility funds are seeing reductions in spending mostly attributable to the purchase of power and water. Through May, those two categories combined are \$2.7M below projections. Once again, spending may normalize as we enter the later phases of the Restore Illinois plan.

### **Next Steps**

Staff continues to work on building a public dashboard to track COVID-related financial changes and anticipates its launch in mid-summer 2020. In addition, staff is working to update projections through the end of the year to better analyze the City's financial needs. Based on the updated projections, staff will determine options to mitigate any budgetary gaps and ask for Council's input on a preferred course of action. Options would align with the financial philosophies introduced at last month's financial update report and could include spending cash reserves, increased borrowing and additional expense reduction through deferred projects.

### **FISCAL IMPACT:**

N/A