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**CITY COUNCIL AGENDA ITEM**

**ACTION REQUESTED:**

Receive the May 2020 Financial Report

**DEPARTMENT:** Finance Department

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

**BOARD/COMMISSION REVIEW:**

N/A

**BACKGROUND:**

As the City, region, and nation continue to experience the ongoing effects of the COVID-19 pandemic, more information is becoming available regarding duration and impacts. To provide Council with data to make strategic financial decisions for the City at the appropriate time, staff committed in April to bringing monthly financial reports before the Council beginning with the second meeting in May.

At its May 5 meeting, Council also approved a \$24,974,860 reduction in the 2020 budget that reflected deferrals in the 2020 Capital Improvement Program (CIP).

**DISCUSSION:**

***New Information***

Throughout the last month, actions and estimates from various levels of government have begun to inform what some of the pandemic’s financial impacts to Naperville might be. These include:

- The extension of the Governor’s Stay-at-Home order through May, with modifications to allow retail stores to offer curbside pick-up and delivery options;
- The five-phased, four-region Restore Illinois plan released by the Governor’s office; and
- Announcement of various pending grant opportunities, including federal CARES Act dollars.

(To date, the Fire Department has received just over \$82,000 from the CARES Act Provider Relief Fund with an additional \$20,000 still expected.) An additional \$316,000 in Community Development Block Grant (CDBG) funding has also become available, and City staff is exploring a potential program to assist small businesses using these funds.

Although the above begins to lay out the framework for how economic recovery may progress, more accurate information on how revenues may ultimately be impacted are not available at this time due to both the continued progression of the pandemic and the three-month delay in state revenue receipts. Staff continues to manage finances based on current data and leveraging the strong foundation put in place pre-pandemic.

As mentioned at the April 7 Council meeting, a preliminary projection of \$18 million in lost revenue was estimated by the City; this figure included the impacts of a potential stay-at-home order extension through May. The Illinois Municipal League has also released projections regarding its revenue forecasts for the MFY2021(April 1, 2020 - May 30, 2021) in five major tax revenue areas:

- **Personal Property Replacement Tax (PPRT)** - projected to decrease 30% due to declining corporate tax and one-time revenues in 2020 that are not expected to be received in 2021
- **Motor Fuel Tax (MFT)** - down 15% due to reduced traffic and gas consumption
- **Transportation Renewal Fund (TRF)** - expected to be reduced 40%. (The revenue source was not established until September 2019 and projections were not able to be included in the 2020 budget. Any decrease will not have a negative impact on planned City expenses.)
- **Local Government Distributive Fund (LGDF)** - projecting at least a 15% decrease
- **Use Tax** - estimated to remain flat due to rising consumer payments

The total budget for these five revenues in 2020 was \$25.79 million. Assuming the projected decreases presented by IML, the loss in revenues would total \$3.23 million. However, the City has already received \$9.99 million in these revenues due to overperformance through the first four months. Additionally, the City received \$585,000 from the Transportation Renewal Fund, which was not projected in the 2020 budget.

**Expenditure Reductions**

In addition to the above CIP reductions, some of which were influenced by the onset of COVID-19 and others through previously anticipated project delays, staff has identified and implemented \$3.7 million in additional reductions noted below.

Cost Reduction	Description	Amount
Healthcare	Restrictions on access to medical and dental facilities have resulted in significant declines in weekly payments to the city's healthcare providers.	\$1.16M
Overtime	Overtime needs have been significantly reduced with the stay-at-home order, including significant reductions for Police, Public Works and Water.	\$410,000

Special events	State restrictions on the number of people allowed to gather has resulted in 11 cancellations. An additional \$112,000 in allocations is also tied to events that have either been partially cancelled or postponed.	\$314,000
Purchased Power (IMEA)	The City is seeing savings from its reduced usage.	\$980,000
Fuel	Low fuel prices, coupled with reduction in driving due to the pandemic, has lowered expenses in this category.	\$114,000
Contractor costs	Certain work is being done in-house when it can be safely performed.	\$508,000
Training and travel	Cancellations on training events have resulted in significant savings, which will likely continue in the coming months.	\$210,000
<b>Total Savings to Date</b>		<b>\$3.7M</b>

**Revenue Estimates**

As noted earlier, certain post-COVID revenues will not be received by the City until mid-June, three months after the onset of the pandemic. These include state sales tax, state income tax, home rule sales tax, local use tax, and state motor fuel taxes. Because of the large number of unknowns at this time, staff is not providing a refined overall revenue loss projection, as it would not have a large degree of accuracy. However, we can begin to see some effects when looking at various revenues, especially locally.

**State revenues**

Through April, receipts from state-based revenues outpaced projections by more than \$2.2 million, showing strong *pre*-pandemic performances. Staff budgets conservatively with state-oriented revenues, which may provide some assistance to the City as these revenues are anticipated to begin declining in future months.

Revenue	Projection (through April)	Actual (through April)	Diff (\$)
Sales Tax	11,581,049	12,144,087	563,038
State Income Tax	4,761,913	5,291,665	529,752
HRST	4,197,282	4,854,263	656,981
Motor Fuel Tax	1,830,268	2,029,319	199,051
Local Use Tax	1,625,420	1,948,609	323,189
<b>Totals</b>	<b>\$23,995,932</b>	<b>\$26,267,943</b>	<b>\$2,272,011</b>

Nearly all the state distributions in May continue to trend in a positive direction except for income tax. This could be attributed to the City’s projections, which are based on historical trends. Current projections anticipated a slight spike in this revenue in May, which may have been impacted by the Special Census completed in 2018. To date, the state income tax is \$96,000 above projections. (As of May 13, the City is still waiting on IDOT’s motor fuel tax distribution report.)

Revenue	May Projection	May Actual	Diff (\$)
Sales Tax	2,453,530	2,459,388	5,859
State Income Tax	1,920,609	1,486,588	(434,021)
HRST	827,483	914,904	87,421
Local Use Tax	324,779	366,528	41,749
<b>Totals</b>	<b>\$ 5,529,401</b>	<b>\$ 5,227,408</b>	<b>\$ (298,975)</b>

**Local revenues**

Local taxes and revenues provide a more immediate picture of the pandemic’s initial impacts. The City requires applicable businesses to report taxable sales on local gasoline and food and beverages by the 20th of each month. Hotel and motel taxes are required by the 15th of each quarter. (Currently, businesses are not required to make payments per Executive Order 2020-06.) Receipts for these taxes have declined since the pandemic’s onset. Typically, the City receives more than 1,000 food and beverage receipts, 80 local gasoline tax receipts and 27 hotel/motel receipts; all three categories are showing decreases. Below is a table of receipts received at end of April for the first three reporting periods of the year.

Month	Food & Beverage	Hotel/Motel	Local Gas
January	335	2	28
February	272	-	28
March	239	19	20
<b>Total Receipts</b>	<b>846</b>	<b>21</b>	<b>76</b>

The decline in receipts has also resulted in a decline in revenues. The table below shows the total reported sales in each tax category by reporting period since the beginning of the year. Reported sales declined in March; food and beverage and local gasoline sales in April will be compiled later this month due to lag time in receipts. (Hotel and motel taxes are filed quarterly.) The table also shows a steep decline in real estate transfers, which are filed as presented.

Month	Food & Beverage	Hotel/Motel	Local Gas	Real Estate
January	34.62	0.85	5.38	66.11
February	29.46	-	5.15	67.11
March	19.20	-	3.27	89.48
April	-	6.86	-	1.99
<b>Totals</b>	<b>\$ 83.28</b>	<b>\$ 7.71</b>	<b>\$ 13.81</b>	<b>\$ 224.70</b>

\*millions

Full first quarter reports can be viewed at [www.naperville.il.us/government/city-finances/annual-budget-and-audit-report/](http://www.naperville.il.us/government/city-finances/annual-budget-and-audit-report/) <<https://www.naperville.il.us/government/city-finances/annual-budget-and-audit-report/>>.

**Risk Assessment and Efforts**

Staff compiled a risk assessment of major operating and capital revenue sources based on estimated budgetary impact and known March and April figures. The assessment will be updated as post-COVID numbers become available and will be discussed in greater detail in future monthly reports.

Revenue Source	Level of Risk	Reasoning
Food and Beverage Taxes	High	Stay-at-home order; 5-phase recovery
Hotel/Motel Taxes	High	Stay-at-home order; 5-phase recovery
State Sales Taxes	Medium	Three-month delay in receiving these dollars from the state will delay initial impact; this risk will increase in the coming months based on when the northeast region can move to future phases of the state's re-opening plan
Income Taxes	Medium	Three-month delay in receiving these dollars from the state will delay initial impact; this risk will increase in the coming months based on when the northeast region can move to future phases of the state's re-opening plan
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	April transports were below projections with fewer people out; however, we anticipate partial recovery in May and a return to normal levels in June
Property Taxes	Low	Dollars received twice per year (June and September), collection method and previous collection experiences during '08 recession may mitigate effects

Staff is also monitoring business sectors where it anticipates a decline in revenues, including the auto industry and healthcare. Both have an impact on the City's revenues and expenses, from a sales perspective (auto) and an expense perspective (internal healthcare costs).

Staff continues to seek out grant funding to potentially offset ongoing anticipated revenue loss. The Fire Department has already received \$82,000 from the U.S. Department of Health and Human Services (HHS); the HHS will be disbursing an additional \$20,000 later this year. Fire is looking into additional HHS grants for income replacement as well as potential FEMA grants for overtime and special equipment costs.

The City is also working on formal requests for funds from DuPage and Will counties. Both counties received more than \$120 million from the state for use in economic relief efforts. Distribution of the funds remains unknown.

**Financial Philosophies**

Although both revenues and expenses will continue to be refined and monitored throughout the pandemic and into recovery phases, it is inevitable the City will experience significant, sustained financial impacts from this event. While the magnitude of the required response throughout 2020 has yet to be solidified, staff is seeking initial input from Council on which financial philosophies they may feel most comfortable with moving forward. Some, but not all, of the philosophies and tools could

include:

- **Revenue restrictions:** Many revenues within the city are restricted for use. Council has the option to remove restrictions, which could include a temporary loosening of the restrictions or a sunset clause. Lifting restrictions could make funds available from various revenue sources, including food and beverage and home rule sales taxes. Council could also opt to reallocate funds for different purposes, including shifting unused special event allocations to expand the social service program or develop relief funds for local businesses.
- **Maintenance project reductions:** Reduction of maintenance projects will further reduce expenses for the remainder of the year. Delaying maintenance projects could result in increased expenses in the future.
- **Opportunity cost project deferrals:** Certain previously planned projects could be fast-tracked using alternative revenue sources due to the current environment, thereby taking advantage of potential lower costs than if they were executed in the future as originally planned.
- **Financial principle suspension:** The City has the option of using cash reserves and/or leveraging its borrowing power to address potential revenue gaps. This would require Council to approve amendments to some of its financial principles. The city is in a position of strength in both areas due to the strict adherence to the principles over the past five years.

Staff will be looking to obtain feedback from Council on the above to help set a financial roadmap as the City moves into its recovery phase.

#### ***Next Steps and Upcoming Reports***

Staff will begin working on revised projections for the June report, which will be the first to include post-COVID state tax figures. In addition, staff will begin preparing an online public dashboard to track major revenues, their level of risk, ongoing expense reductions, and steps the City is taking to mitigate the impact of the pandemic on the community. Future reports will refer to this dashboard and summarize major highlights and changes each month.

#### **FISCAL IMPACT:**

N/A