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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the February 2021 Financial Report

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

The monthly financial report was developed in response to the unprecedented economic impacts resulting from the COVID-19 pandemic. It is designed to provide timely information and data related to the City's financial position and the local economy. This report is intended to assist the City Council in making strategic financial decisions when necessary and will be presented at the second meeting of each month.

DISCUSSION:

Recent Actions and Trends

The pandemic continues to be a constantly evolving situation. Staff is monitoring national, state, and local changes in the pandemic landscape that may affect the local economy.

Three recent events include:

1. Vaccination Progress: Administration of the COVID-19 vaccine began in mid-December in accordance with the state's distribution plan. While vaccination metrics are not available at the City level, the Illinois Department of Public Health (IDPH) is reporting at the county level. As of February 6, IDPH reported full vaccination of 2.69% of the DuPage County population and

2.04% of the Will County population.

2. **Improving Health Metrics:** In recent weeks, both of the City's public health regions saw COVID-19 metrics improving, which resulted in the easing of state-mandated mitigation strategies. Region 7 (Will) advanced to Phase 4 mitigations on February 1 and Region 8 (DuPage) advanced to Phase 4 on February 3. The most significant change from an economic perspective is the return of limited indoor dining, as the restaurant industry is a vital component of the local economy and is a driver of activity, particularly downtown.
3. **Federal Economic Stimulus:** On December 27, the federal government approved another round of economic stimulus, which included direct payments to individuals, assistance to small businesses, and enhanced unemployment benefits among other measures. The new stimulus package provides additional support to our small business community through programs like the Payroll Protection Program (PPP). The transition to a new presidential administration has spurred discussions on additional federal stimulus in early 2021, including renewed discussion on assistance to state and local governments. Staff continues to monitor developments that may directly impact the City.

Economic Indicators

Throughout 2020, staff reported monthly on certain state and local revenues that represent some of the City's largest and most economically sensitive revenue streams. These revenues declined significantly during the early months of the pandemic and recovered later in 2020. While revenues did not fully recover to pre-pandemic levels, fears of sustained revenue decline abated. Regardless, staff offered very conservative revenue projections in 2021 as it was unclear whether a second wave of virus cases would bring the economy to a halt in the early months of 2021 as it did in March and April of 2020.

In 2021, staff will continue to monitor and report on this same group of revenues (listed below) as indicators of economic recovery, as they are largely driven by consumer behavior at the local level. For that reason, they offer the best gauge on the local economy. One revenue that will be closely watched this year is State Income Tax. This revenue outperformed in 2020 after the state increased the level of funding to municipalities through the Local Government Distributive Fund (LGDF). As the state works through its fiscal challenges, the LGDF share to municipalities could be negatively impacted, as has happened during past fiscal crises at the state level.

1. **State Collected Revenues:** The City receives certain revenues from the state monthly. These include Sales Tax and Home Rule Sales Tax (HRST), which are disbursed based on actual retail sales occurring within the City. Income Tax, Motor Fuel Tax (MFT), and Local Use Tax are disbursed on a per capita basis. Because of the State's disbursement schedule, some of these revenues are received three full months after the tax is collected at the point of sale.

Revenue disbursements for January exceeded budget projections in total. It is important to remember that monthly projections are based on the historical timing of when the City receives revenue throughout the year as some categories fluctuate more than others from month to month.

- Sales Tax totaling \$2.9 million exceeded budget projections by more than 7%. This revenue represents sales that occurred in October 2020.
- State Income Tax totaling \$1.6 million exceeded budget projections by more than

37%, with the City continuing to reap the unanticipated benefits of higher LGDF distributions.

- HRST totaling \$1.1 million fell short of budget projections by nearly 11%; however, the full-year budget projection takes into account an increase in HRST that is expected from the change in the taxation of online sales. The new regulations went into effect on January 1 but will not be reflected in monthly revenue until April. It is expected that this number will smooth out come April.
- MFT, including Transportation Renewal Funds (TRF), totaling \$489,474 fell short of budget projections by almost 18%. This may be the result of reduced holiday travel. Staff will continue to monitor for downward trends.
- Local Use Tax continues to outperform other revenues. January revenue totaling \$583,326 exceeded budget projections by more than 23%.

One area that will be closely monitored in 2021 is the balance between Sales Tax/HRST and Local Use Tax. Illinois' new online sales tax laws are in effect as of January 1. The new laws should shift dollars from use tax to sales tax; however, we will not see that shift until the April reporting period as that is when January sales are disbursed. It is understood that this shift will benefit the City, but to what extent remains unknown.

January State Collected Revenues

Revenue	Projection (\$)	Actual (\$)	Difference (\$)	Difference (%)
Sales Tax	2,725,399	2,921,014	195,615	7.2
State Income Tax	1,133,756	1,563,380	429,624	37.9
Home Rule Sales Tax	1,238,325	1,105,128	(133,197)	(10.8)
Motor Fuel Tax/TRF	595,938	489,474	(106,464)	(17.9)
Local Use Tax	472,779	583,326	110,547	23.4
Totals	6,166,197	6,662,322	496,125	8.0

In future months, the monthly revenue collection table will be followed by a year-to-date revenue table which will track revenue progress through 2021.

2. Locally Collected Revenues: The City receives certain taxes directly from the business that collects the tax. Because the taxes do not flow through the state they are received more timely than other taxes. The taxes in the table below are remitted to the City in the month following their collection. That means revenue collected in January represents December sales. This provides a more current snapshot of economic trends.

The table below details taxable sales reported on returns submitted to the City and not the actual tax revenue received. Taxable sales provide a clearer picture of economic trends as the receipt of actual revenue can be delayed at times. The numbers below show some regression in sales over the final two months of 2020, likely due to the additional mitigation measures imposed in late October as a result of the resurgence in virus cases.

Food and beverage sales, in particular, experienced declines in November and December as indoor dining was banned and outdoor dining was less desirable. While sales did not regress to the lows seen in April and May, December sales were 29% lower than their peak in August. The return to Phase 4 should mitigate these declines, as should the return of outdoor dining in

the spring.

Local gas sales also declined towards year-end. Again, this is likely attributable to reduced travel during the recent mitigation period as more people returned to teleworking.

Hotel and motel sales continued to face challenges during the third quarter of 2020, although sales had more than doubled from the prior quarter. Fourth-quarter sales will be reported next month.

The real estate market continued to perform well during the final months of the year, which is a departure from normal seasonal trends. December sales at \$148.2 million represented the fourth highest sales month of 2020.

Month	Food & Beverage	Hotel/Motel	Local Gas	Real Estate
January	34.80	0.85	5.38	66.11
February	34.00	0.93	5.27	67.11
March	22.27	3.02	4.17	89.48
April	14.95	5.76	2.44	71.07
May	20.68	0.06	3.39	107.41
June	27.62	1.08	4.84	135.77
July	32.95	2.07	3.63	149.88
August	35.44	0.19	4.70	153.78
September	33.22	1.70	4.22	128.98
October	30.96	4.39	4.60	191.77
November	23.43	0.20	3.73	133.49
December	25.19	1.70	3.30	148.18
Totals	335.50	21.96	49.68	1,443.02
\$ in millions				

Local Economic Support

The City continues seeking opportunities to support the local economy through financial assistance programs or other available means. The City Council recently approved two actions, the programming of \$708,723 in Community Development Block Grant CARES Act (CDBG-CV) funds received and the implementation of a \$500,000 temporary utility assistance program, which is scheduled to begin taking applications on February 15. In future monthly reports, staff will update the Council on the status of these programs.

Next Steps

Staff will continue bringing monthly reports before the Council at the second meeting of each month. These reports will focus on the state of economic recovery and include relevant topics for discussion, such as areas of current or future years' budgets that require additional attention as information becomes available. Staff will report on the full budget, including revenues and expenditures, quarterly in 2021.

FISCAL IMPACT:

N/A

