

NOTE: All materials must be submitted to and approved by the Village Manager's Office by 12:00 noon, Wednesday, prior to the Agenda Distribution.



MEMORANDUM

To: Finance and Administration Committee

From: Tim Sexton, Director of Finance

Date: May 28, 2020

Subject: COVID-19 Financial Impact and Recommendations

Finance staff have previously communicated with Committee members about the impact that the COVID-19 pandemic is having on Village finances. This memo will provide an update on where the current situation stands, as well as highlight many of the unknowns that the Village is dealing with. In addition, the Finance Committee is being requested to make recommendations on several components to deal with this unprecedented situation.

Staff shared a presentation with the Committee on April 14 that included estimates for General Fund Revenue shortfalls from early April. There is a lot of additional information that has developed since those first projections were issued, and this memo will discuss some of the changes in assumptions based on this additional information, and the impact on the Village.

Sales Tax

Month	Estimate	Estimate
<u>Sales</u>	<u>Early April</u>	<u>Late April</u>
February	80%	80%
March	30%	30%
April	30%	30%
May	40%	35%
June	50%	40%
July	60%	45%
August	70%	50%
September	80%	55%
October	90%	60%
November	90%	65%

Total Est Revenue for the Year: 8,118,636 6,805,701

Additional Shortfall 1,312,935

This new estimate results in an overall reduction of \$4.65 million, or 40.6%.

Places for Eating Tax

Month Sales	Estimate Early April	Estimate Late April
February	90%	88%
March	30%	30%
April	0%	0%
May	0%	0%
June	50%	30%
July	60%	35%
August	70%	40%
September	80%	45%
October	90%	50%
November	90%	50%
December	90%	50%

Total Est Revenue for the Year: 2,078,903 1,416,751

Additional Shortfall 662,152

This new estimate results in an overall decrease of \$1.8 million, or 57.2%.

Other Major Revenues

Income Tax – Reduction of \$1.4 million, or 29.5%

Property Tax – Reduction of \$1 million, or 10% (only a portion of this directly affects the General Fund)

Amusement Tax – Reduction of \$245,000, or 63.5%

Other revenues, including building permits, licenses, EMS fees, court fines, etc., all show varying degrees of decline.

OVERALL ESTIMATED 2020 GENERAL FUND REVENUE SHORTFALL - \$9.7 million, or 26.0%

OVERALL ESTIMATED 2021 GENERAL FUND REVENUE SHORTFALL - \$2.5 million, or 6.7%

Potential Funds Available:

First and foremost, the Village continues to look at options to reduce expenditures for the long term. Those long-term options will be a separate discussion, as we look at the 2021 Budget, although some of those changes may still be made in 2020. The information below on the potential funds available is intended to give the Village time to make fully informed decisions, and get the Village through the worst of the current situation. The intention is that these funds help get us through shortfalls in both 2020 and 2021, therefore affording time to make changes to both expenditure and revenues.

- Department Expenditure Reductions
 - \$131,000 – Reduction in training, supplies and other miscellaneous reductions
 - \$1,043,000 – Freeze existing open positions with a continuous look at future open positions (Exceptions possible on case-by-case basis with Village Board approval)
 - Firefighter; 4 Police Officers; Police FT and PT Front Desk Clerks; Police PT Records Clerk; HR Payroll Specialist; Private Development Engineer; 2 CD Interns
 - TOTAL - \$1,174,000
- Waterfall Reserve Funds
 - \$1,078,000 of revenues over expenditures for 2019 – These funds would normally be put through the waterfall process, as we have done for the previous years. It is recommended that these funds be carried over into the General Fund for 2020 to help offset the revenue shortfall
 - \$1,283,000 in the Revenue Stabilization Fund – It is recommended that all of these funds be made available to help offset the revenue shortfall
 - \$1,833,000 in the Emergency Expense Reserve Fund – It was originally anticipated that these funds would be used where a large outlay was needed for a situation, whether it be for a storm or a large scale event that required a significant Village response. Now, it is recommended that these funds be used to help offset the revenue shortfall
 - \$3,369,000 in the Building Reserve Fund – This fund was at the bottom of the waterfall and was intended for new building or major building renovations in the future. However, due to the extent of the current situation, it is recommended that these funds now be used to help offset the revenue shortfall.
 - TOTAL - \$7,563,000
- Other Available Funds
 - \$1,500,000 Sale of 101 S. Main – The closing on this property is expected to take place in late summer or fall. The Finance Committee had previously made a recommendation to set aside \$500,000 to be used for economic development purposes, and then put the remaining \$1,000,000 through the waterfall. However, due to the extent of this current situation, it is recommended that these funds now be used to help offset the revenue shortfall.
- TOTAL OF WATERFALL AND OTHER FUNDS - \$9,063,000

It should be noted that these funds will only be used to the extent that they may be needed. Staff continues to work on plans to reduce expenses. In addition, there is the possibility that revenues will not be impacted as significantly as we are currently projecting, or that one of the issues discussed below will impact the situation. However, we need to be prepared to deal with the worst case scenario, which is why these recommendations are being requested.

Unknown Revenue Impacts

There are a number of unknown revenue impacts that could positively or negatively change the current situation. These will be listed and discussed below.

- Federal stimulus with strings
 - Reimbursement for expenses (Likely max of \$300,000 for Lombard)
 - DuPage County or State trickle down – still only for expense reimbursement. It currently appears that DuPage County will be working with municipalities on reimbursing expenses related to COVID.
 - Revenue replacement on a per capita basis – THIS IS WHERE FEDERAL ASSISTANCE IS NEEDED MOST FOR ALL STATE AND LOCAL GOVERNMENTS.
- Legislative at the State Level – Any changes at the state level are unlikely this session, given the Legislature's limited scope of anticipated meetings before adjourning. However, below are those legislative changes that could have an impact.
 - Non-Home Rule Sales Tax – Flexibility to use for operations
 - Hotel/Motel Tax – Flexibility to use for operations
 - Motor Fuel Tax for Non-Home Rule municipalities – Non-Home Rule municipalities in Cook County were given this option last year; it is being requested that all Non-Home Rule municipalities be given this option
 - The above three options could be considered as an option for "Non-Home Rule Light", whereby Non-Home Rule municipalities get some of the flexibility afforded Home Rule municipalities without the ability to increase property taxes.
 - The ability to implement a food and beverage tax similar to Home Rule communities – This would remove current Places for Eating Tax restrictions that seating be available, and could apply more broadly to food and beverage sales, such as takeout only places and beverages sold at liquor stores.
- Legislative – Local Control
 - Referendum Options
 - Home Rule
 - Property Tax increase in lieu of vehicle stickers
 - Vehicle Stickers
 - Amusement Tax on streaming services

All of these issues above could have an impact on the Village's finances. We will continue to monitor information on the issues that are not under local control. In addition, information will be provided as we move into the 2021 budget process on those legislative items that are under the Village's control.

Formal Action Needed

Staff requests that the Finance Committee make the following recommendation to the Village Board:

Motion to recommend to the Village Board of Trustees that all funds listed below be made available to the extent needed for use in 2020 and 2021 to help cover anticipated revenue shortfalls during this period:

- Any 2019 revenues over expenditures that would normally be put through the waterfall process
- All funds in the Revenue Stabilization Fund
- All funds in the Emergency Expense Reserve Fund
- All funds in the Building Reserve Fund
- All proceeds from the sale of 101 S. Main St.