

MEMORANDUM

TO: Mayor Richard C. Irvin
Alex Alexandrou, Chief Management Officer

FROM: Martin S. Lyons, Chief Financial Officer/City Treasurer

DATE: March 26, 2020 - REVISED

SUBJECT: COVID 19 Budget Impact

Based on announcements by Governor Pritzker since March 11, 2020, I have revised the potential budget impacts based on a more in depth review of a first scenario of revenue losses. This scenario is not a worst case, but does provide insight on our ability to continue operations. THIS IS A SIX MONTH REVIEW AND A FULL 2020 REVIEW ALONG WITH OTHER SCENARIOS ARE STILL IN PROCESS.

1. General Fund Economy based revenue reductions through 9/30/20:
 - a. Sales/HR Sales Tax/Alcohol/F&B - \$11.7 million
 - i. Reduction in Sales by 50% in June then down to 25% for July - September
 - ii. Reduction in Food & Beverage down 80% with restaurants closed
 - b. Local Use Tax (Internet Sales) – no change
 - c. Reduction in Income Tax/LGDF - \$2.8 million
 - i. Reduction by 50% for June – September
 - ii. Lag in receipt from state could keep April and May steady
 - d. Reduction in License Permits and Fees \$3.1 million
 - e. Reduction in Charges For Services \$1.8 million
 - i. Ambulance and Franchises fees not affected
 - ii. other charges reduced completely if we can't provide inspection services
2. General Fund Property Tax Reduction - \$7.6 million
 - a. During Great recession non-payment resulted in lower collection rates
 - b. Using a 90% collection rate in this situation
3. Total General Fund potential revenue loss over 6 months only - \$27.0 million
4. This does not include the losses that will also happen to other funds such as SHAPE, Capital Improvements and non-critical enterprise funds. For example we may want to use these funds as ways to provide revenue relief by suspending Long Term Control Plan Fees or other non-General, but also Non-Water Fund revenues. This also does not include the total loss of several months of Gaming tax revenues, which will be at least \$4.0

million when considering the closure and the amount of income available for gambling in this environment. Based on the increasing but still uncertainty regarding the severity and/or duration of business interruption both within the City and state-wide, I continue to recommend the City:

1. Suspend all new and replacement hire activity for 90 days
 - a. Hiring of Police and Fire personnel that are coming out of the academy and ready for active duty can be considered an exception. Police and Fire hiring will be reviewed with the respective Chiefs and Mayor's Office based on manpower and operational readiness needs.
 - b. Hiring of replacement Police and Fire personnel due to retirement should also be reviewed.
 - c. Otherwise non-public safety budgeted unfilled positions in the 2020 Budget will be held.
2. Suspend implementation of all Decision Packages that have not started, also for 90 days (total value of decision packages is \$2.0 million).
3. Hold or postpone to 2021 all locally funded capital projects for timing purposes, such that a delay may provide cash flow for basic operations in the event ongoing revenues are impacted as noted above. This would likely impact facility capital projects as well as streets related projects. In all cases except security related, the deferral of these projects involves potential cost increases (further deterioration of infrastructure) but when compared to actual operating disruptions due to lack of reserves, capital should be considered for deferral (Total value of capital can vary greatly, but can be between \$10.0 and \$30.0 million).
4. Suspend all pay increases except emergency promotions as determined by the Mayor's Office.
5. Encourage Direct Deposit for all City and pension payroll activity.

This brings the total revenue loss to an estimated \$27 million in the General Fund, not counting the Medicaid ambulance fees that have not been received yet of \$3.0 million.

Even with this loss, if the above steps are taken, the General Fund **could** maintain operations through September 30, 2020, but our reserves would be reduced to approximately \$0.

Other Funds with reserves can be utilized on either a grant or loan basis and we will need to go through each of these funds to identify funding as we continue to identify the duration of the COVID 19 event. Below is a brief listing of current estimated cash balances by such funds:

- Hotel Tax - \$1.7 million (available)
- Debt Service Reserve - \$2.0 million (available)
- Gaming Tax Fund - \$6.3 million (available)
- Stormwater Mgmt Fund \$7.0 million (repay advisable)

- LTCP Fund - \$2.6 million (repay advisable)
- Ward Funds - \$4 million (available)
- Capital Improvements Fund - \$9 million (available)
- Water Fund - \$18 million (repay required)
- Employee Comp Benefits - \$20 million (repay required)

These same steps are being taken by communities across Illinois. The above amount does not include Motor Fuel Tax or 911 funds which could also be used, but that decision will not need to be made immediately.

The city will be in full 2021 budget planning mode by July/August, and any loans from the above areas will then need to be added in for long term repayment plans beginning as quickly as possible.

I will continue to work on the format for a modeling tool, and this is the result of the first review of revenue data, without a review of expense data as this model shows how far we can go with a set of revenue reductions with no operational reduction in services before we deplete current cash reserves in the General Fund. This model assumes expenses equal to 2019 levels in the General Fund, which is possible to achieve given the lower expenses for suspended programming and suspended decision packages.

At a minimum, we will need a model through the end of the fiscal year, because we will need to account for debt service payments of \$8 million in December on top of normal expenses. Additional financial models will be created after we outline assumptions and parameters for operational reductions and further reductions in revenues if need be. This can be done over the coming two weeks and will be ongoing as pandemic conditions warrant.

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