



MEMORANDUM

To: Finance and Administration Committee

From: Timothy Sexton, Director of Finance

Date: July 12, 2021

Subject: Reserve Policy and Stimulus Direction

Attached is an update on the revenues over expenditures for FY 2020 and the memo presented at the March 15, 2021 F&A Committee Meeting. The Committee tabled the Reserve Policy and Stimulus Direction Discussion to the July meeting after completing the 2020 audit.

Recommendation on Allocation of 2019 & 2020 Revenues over Expenditures

The 2020 audit is now complete and staff is seeking a recommendation from the F&A Committee to allocate \$3,019,489, which is the 2019 (\$1,078,000) and 2020 (\$2,076,193) revenues over expenditures, according to the Year-End Revenues Over Expenditures Policy "waterfall". Also attached is how the \$3,019,489 would be distributed thru the "waterfall" and the cumulative history of distributions.

Reserve Policy & Stimulus Direction

Staff would like to hold off on considering the use of ARPA funds and the \$1M from the Sale of 101 S. Main St as we look at developing an Economic Development Fund and Policy. Over the next couple of months, staff will introduce a discussion regarding an effort to supplement the Village's established Economic Policy with a companion Business Retention Economic Incentive Agreement/Policy. This is in response to the Lombard Village Board's ongoing Strategic Planning effort to address business retention efforts as well as inquiries made to Village staff regarding retention incentives. This effort will require engagement with the ECDC, the F&A Committee, and the Village Board.

It is our understanding that the State of Illinois has not yet requested their funding or the funding allotted to non-entitlement units (NEUs) of local government under the American Rescue Plan Act (ARPA) of 2021 and we are still waiting for the rules on the use of funds to be finalized. Municipalities have until December 31, 2024, to obligate ARPA funds and all ARPA funds must be spent by December 31, 2026.

Revenues over Expenditures			
FY 2020			
Excess Amount to Maintain Fund Balance		5,093,000	A
2019 Revenues over Expenditures	1,078,000		
101 S. Main St.	1,000,000		
Amount of stimulus needed to balance FY21 deficit	938,807		
		<u>3,016,807</u>	B
2020 Revenues Over Expenditures		2,076,193	A - B
Explanation			
Excess funds from covering budgeted public safety salaries	821,041		
Revenue greater than projections	584,047		
Expenses less than projections	<u>671,105</u>		
		2,076,193	

Hypothetical Distribution thru Waterfall at Year End 2020
(includes both 2019 & 2020 YE Revenues over Expenditures)

					\$	3,019,489
		2021 Budget	Needed Reserve	Reserve Beg Balance	Addl Reserve Needed	
Emergency (5% of Total unreserved budgeted GF Exp)	5%	\$36,503,165	\$ 1,825,158.25	\$ 1,833,037.00	\$	(7,878.75)
Revenue Stabilization (3.5% of Total unreserved budgeted GF)	3.50%	\$36,503,165	\$ 1,277,610.78	\$ 1,283,129.00	\$	(5,518.22)
Total*			<u>\$ 3,102,769.03</u>	<u>\$ 3,116,166.00</u>	\$	<u>(13,396.97)</u>
Remaining Balance to distribute between Pension and Building Reserves (*leave excess from above reserves and only spread annual distribution)					\$	3,019,489.00
Pension (50% Remaining Balance):					\$	1,509,744.50
Pension Stabilitation Fund			\$ 1,000,000.00	\$ 1,000,000.00	\$	-
Balance over \$1M Make Distribution to Pension Funds					\$	1,509,744.50
<u>Distribution to Pension Funds:</u>						
IMRF: 20%					\$	301,948.90
Police Pension: 40%					\$	603,897.80
Fire Pension: 40%					\$	603,897.80
Building (50% Remaining Balance)					\$	1,509,744.50

History of Distributions thru Waterfall

Fund	<u>YE 2016</u>		<u>2017 & 2018</u>		<u>2019 LRP</u>		<u>DRAFT YE 2020</u>	<u>Cumulative</u>
	<u>Waterfall</u>	<u>YE 2017 Waterfall</u>	<u>LRP</u>	<u>YE 2018 Waterfall</u>	<u>Distribution</u>	<u>Distribution</u>	<u>Waterfall</u>	
Emergency	\$ 1,786,727	\$ 46,313	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,833,040
Revenue	\$ 1,250,709	\$ 32,419	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,283,128
Building	\$ 1,119,423	\$ 920,634	\$ 628,764	\$ 750,000	\$ 574,980	\$ 1,509,745	\$ 1,509,745	\$ 5,503,546
Pension	\$ 1,119,423	\$ 920,634	\$ 628,764	\$ 750,000	\$ 574,980	\$ 750,000	\$ 750,000	\$ 4,743,801
	<u>\$ 5,276,282</u>	<u>\$ 1,920,000</u>	<u>\$ 1,257,528</u>	<u>\$ 1,500,000</u>	<u>\$ 1,149,960</u>	<u>\$ 2,259,745</u>		<u>\$ 13,363,515</u>

	<u>YE 2016 Water</u>		<u>2017&2018</u>		<u>2019 LRP</u>		<u>DRAFT YE 2020</u>	<u>Total</u>
	<u>Water</u>	<u>YE 2017 Waterfall</u>	<u>LRP</u>	<u>YE 2018 Waterfall</u>	<u>Distribution</u>	<u>Distribution</u>	<u>Waterfall</u>	
IMRF: 20%	\$ 23,884.53	\$ 184,126.89	\$ 125,752.80	\$ 150,000.00	\$ 114,996.00	\$ 451,948.90	\$ 451,948.90	\$ 1,050,709.12
Police Pension: 4%	\$ 47,769.07	\$ 368,253.77	\$ 251,505.60	\$ 300,000.00	\$ 229,992.00	\$ 903,897.80	\$ 903,897.80	\$ 2,101,418.24
Fire Pension: 40%	\$ 47,769.07	\$ 368,253.77	\$ 251,505.60	\$ 300,000.00	\$ 229,992.00	\$ 903,897.80	\$ 903,897.80	\$ 2,101,418.24
								<u>\$ 5,253,545.59</u>



MEMORANDUM

To: Finance and Administration Committee

From: Timothy Sexton, Director of Finance

Date: March 12, 2021

Subject: Reserve Policy and Stimulus Direction

At the January 25, 2021 F&A Committee meeting, the Committee discussed the current financial situation for the Village related to COVID, and where to allocate the unused funds that were set aside to deal with any shortfalls related to COVID. This included the \$1.078 million from the 2019 Revenues over Expenditures, and the \$1 million from the sale of 101 S. Main St. property. The Committee recommended at that meeting that the Village hold off on deciding where to allocate these funds in case those funds were needed to cover revenue shortfalls or additional expenditures related to COVID. It was also recommended to bring this issue back to the Committee after the 2020 audit is completed in May or June.

Below is information regarding the stimulus bill that was passed by the House and Senate. In addition, there is initial information related to revenues lost as well as additional costs anticipated due to COVID. The full discussion on these topics will come back to the Committee in the future for more detailed analysis and discussion. Staff is not seeking direction on the use of these funds at this time. This will be brought to the F&A Committee at a future date, as well as this will likely be discussed with the Village Board at strategic planning due to the significant upcoming turnover of the Board.

American Rescue Plan Act (2021 Stimulus)

Recently, the Senate and the House passed the American Rescue Plan Act, a \$1.9 trillion stimulus bill, and it is expected to be signed into law by the President prior to our meeting on Monday. Included in this legislation was \$350 billion for state and local governments. Based on information provided to state and local governments, it is estimated that Lombard's share of these funds will be approximately \$5.4 million.

The Committee had previously reviewed a list of the Grants and Loans provided by previous stimulus bills, and that information is attached. As a reminder, this list does not

include any of the grants and loans that were made available with the stimulus package that went into effect in December, as that information is not available yet.

Beyond assistance to state and local governments, there are a number of provisions in the stimulus legislation to assist Lombard residents and businesses. Below is a quick summary of some of these provisions.

- a. Provides direct assistance to households with checks of \$1,400 per person up to certain income thresholds. The bill will also provide direct housing assistance, nutrition assistance for 40 million Americans, expand access to safe and reliable child care and affordable health care, extend unemployment insurance, expand the Child Tax Credit, and improve the Earned Income Tax Credit.
- b. Roughly \$7.25 billion was flagged for the Paycheck Protection Program a top priority for hotel and entertainment industries.
- c. Provides \$3 billion for the Economic Development Administration to provide support for communities and industries that have been disproportionately impacted by the pandemic.
- d. Restaurants got the biggest share of direct help: \$28.6 billion in grants for small restaurants with revenue under \$500,000 whose revenue fell in 2020 as a result of the pandemic.
- e. Provides \$15 billion for small businesses to help those who applied for relief in 2020 but did not receive the full \$10,000 grant, and \$10 billion to support up to \$100 billion in small business financing through government programs.
- f. Provides \$27.5 billion for emergency rental assistance and \$10 billion to help homeowners struggling to afford their housing as a result of the pandemic.
- g. Provides \$500 million in funds for HHS and low-income homes household drinking water and wastewater emergency assistance.

This is just a sample of some of the known provisions as this time, and illustrates the significant funding that will go to individuals and small businesses.

Exact details are not yet available for possible restrictions on the funds for local governments. However, this is the known information at this point:

1. Local governments will receive their allocations in two tranches-the first half will be received 60 days after enactment and the other half one year later.
 - a. Village of Lombard is expected to receive \$5,473,539. **Please note that this is an estimate and is subject to change.**
 - b. **Municipalities will be allowed to use these funds on eligible costs incurred by December 31, 2024.** Eligible costs include:

- i. Revenue replacement for the provision of government services to the extent the reduction in revenue is due to the COVID-19 public health emergency relative to revenues collected in the most recent fiscal year prior to the emergency,
 - ii. Premium pay for essential workers,
 - iii. Assistance to small businesses, households, and hard-hit industries, and economic recovery,
 - iv. Investments in water, sewer and broadband infrastructure
- c. **The bill contains two restrictions on eligible uses:** funds cannot be used to directly or indirectly offset tax reductions or delay a tax/tax increase; funds cannot be deposited into any pension fund.

It is expected that the U.S. Department of the Treasury will provide additional guidance and information about what is eligible for this funding. The Village will have to wait for this additional guidance and clarification before bringing the policy discussion to the F&A Committee and the Village Board for determining how these funds get allocated. However, included below is some additional information on lost revenue during 2020, as well as some additional costs that the Village may face in the future, due to COVID.

Revenues Lost

Below is a list of the more significant revenues that saw a decline during 2020 compared to budget.

	2020 Amended Budget	2020 Actual Amount	Actual - Budget
Account: 51255 - Places for Eating Tax	\$3,307,290.00	\$1,800,291.85	(\$1,506,998.15)
Account: 51215 - Sales Tax	\$11,461,860.00	\$10,434,130.91	(\$1,027,729.09)
Account: 51250 - Amusement Tax	\$386,080.00	\$117,480.17	(\$268,599.83)
Account: 51263 - Telecommunications Utility Tax	\$1,283,830.00	\$1,024,185.57	(\$259,644.43)
Account: 53010 - Liquor License	\$219,970.00	\$27,871.67	(\$192,098.33)
Account: 61260 - Emergency Medical Services	\$1,980,000.00	\$1,860,225.96	(\$119,774.04)
Account: 51261 - Electric Utility Tax	\$1,951,390.00	\$1,836,081.37	(\$115,308.63)
Account: 63040 - Administrative Towing	\$214,740.00	\$145,350.00	(\$69,390.00)
Account: 51262 - Natural Gas Utility Tax	\$607,070.00	\$551,598.69	(\$55,471.31)
Account: 53325 - Electrical	\$124,000.00	\$73,760.65	(\$50,239.35)
Account: 61840 - Telecommunications-IMF	\$246,000.00	\$204,886.26	(\$41,113.74)
Account: 63210 - Parking and Local PD Fines	\$141,570.00	\$105,414.25	(\$36,155.75)
Account: 61310 - Elevator Inspections	\$82,500.00	\$55,542.00	(\$26,958.00)
Account: 53315 - Occupancy Permits	\$45,000.00	\$18,415.00	(\$26,585.00)
Account: 61810 - Cable TV Franchise Fee	\$730,000.00	\$705,919.90	(\$24,080.10)
Account: 53040 - Coin Operated Device License	\$20,400.00	\$2,475.00	(\$17,925.00)
Account: 53030 - Restaurant and Food Handler Permit	\$12,100.00	\$1,075.00	(\$11,025.00)
Account: 61320 - Building Plan Review	\$82,000.00	\$72,176.60	(\$9,823.40)
Account: 53090 - Other Business Licenses	\$17,800.00	\$8,140.00	(\$9,660.00)
Account: 51220 - Non Home Rule Sales Tax	\$8,263,870.00	\$7,400,710.60	(\$863,159.40)
Account: 51270 - Hotel/Motel Tax	\$2,041,830.00	\$732,223.08	(\$1,309,606.92)
Account: 51225 - Business District #1 Tax	\$789,450.00	\$545,499.55	(\$243,950.45)
Account: 53260 - Daily Fee Parking	\$326,840.00	\$28,372.46	(\$298,467.54)
Total 2020 Primary Revenue Loss Due to COVID			(\$6,583,763.46)

Many Village revenues faced significant losses in 2020 compared to 2019. Most notably impacted were revenues tied to retail, restaurants, amusement activities and hotels. In

addition, the Village waived various fees for individuals and businesses, including Liquor License fees for businesses.

The current anticipation is that various revenues will be negatively impacted for the first few months of 2021, but that they will pick up as restrictions are loosened throughout the year. Current estimates from the Federal Reserve and various financial institutions are that GDP growth will be up in the 7%-10% range for 2021.

Additional Costs

There are various areas that staff is analyzing for potential additional costs to the Village related to COVID. However, the most notable right now is the costs related to long-term illness from COVID for employees. In 2020, legislation was passed in Illinois that made COVID cases for police officers (PO) and firefighters (FF) automatically presumed to arise from their work, unless the employer was able to prove otherwise.

Therefore, if a PO or FF suffers a long-term illness due to COVID, there are three potential areas where there may be additional costs for the Village. The first cost is in the Workers Compensation (WC) case, which could include medical bills, legal bills and eventually a settlement due to the long-term damage done to their body (similar to any WC case). The second area is a pension disability. If they can no longer perform their duties as a PO or FF, the employee will file for a line of duty disability pension and, if granted by the Pension Board, the Village will incur additional costs related to that. The final item related to this is the Public Safety Employee Benefits Act (PSEBA). This legislation provides free health insurance for employees and dependents if they are injured while responding to an emergency, and receive a line of duty disability pension. While not all COVID cases will involve responding to an emergency, some may.

Taken together, these three areas could add up to very significant long term costs for the Village. The chart on the following page shows the estimated cost for each of these three areas, using hypothetical information based on age. As you can see, the range of potential costs varies widely depending on which benefits they may be eligible for, and their age at the time. But these estimates range from \$275,000 to in excess of \$2 million for each case. It is believed at this time that there will likely be cases

**Potential COVID costs
Present Value of Benefits**

POLICE

	Age			
	35	40	45	50
Disability Pension Liability	533,506	374,152	201,288	-
Potential Workers Comp Settlement	175,000	175,000	175,000	175,000
Workers Comp-Medical & Legal (1)	100,000	100,000	100,000	100,000
SUBTOTAL Excl PSEBA	808,506	649,152	476,288	275,000
PSEBA Costs (if eligible)	1,246,962	963,140	716,365	501,889
TOTAL Incl PSEBA	2,055,468	1,612,292	1,192,653	776,889

FIRE

	Age			
	35	40	45	50
Disability Pension Liability	449,844	320,617	173,754	-
Potential Workers Comp Settlement	175,000	175,000	175,000	175,000
Workers Comp-Medical & Legal (1)	100,000	100,000	100,000	100,000
SUBTOTAL Excl PSEBA	724,844	595,617	448,754	275,000
PSEBA Costs (if eligible)	1,246,962	963,140	716,365	501,889
TOTAL Incl PSEBA	1,971,806	1,558,757	1,165,119	776,889

(1) Medical and legal costs for a workers comp case can vary significantly from case to case; this is meant to provide an example of expected costs for a case like this.

This is not meant to be an all-inclusive list of the additional costs the Village may incur, but rather just a glimpse into what Village staff is still working on related to potential costs.

Policy Discussion

Staff will monitor details on the new stimulus fund requirements and will bring back information to the F&A Committee at a future date, along with the Village Board discussing this during strategic planning.

Given the new stimulus funding approved for local governments provides a backstop for the concerns discussed at the January F&A Committee meeting, staff is providing the F&A

Committee the information in this memo to see if there is a desire to recommend further policy direction at this time regarding where to allocate the unused funds that were set aside in 2020 to deal with any shortfalls related to COVID. These funds include the \$1.078 million from the 2019 Revenues over Expenditures, and the \$1 million from the sale of 101 S. Main St. property. Again, the options for the allocation of these funds that were discussed at the January F&A Committee meeting are attached for consideration.

Policy Direction Needed on Anticipated Unused Funds

Potential Village Funds to Address Deficit in Order of Application:

- 2019 Revenues Over Expenditures - Out of \$1.078 million
- Revenue Stabilization Fund - Out of \$1.283 million available
- Proceeds from Sale of 101 S. Main St. - Out of \$1 million available

Revenue Stabilization Fund

This fund will remain untouched and will continue to serve its original purpose

2019 Revenues Over Expenditures

- Originally would have been put through the waterfall, with half going to the Building Reserve and the other half going to pension funds

Proceeds from the Sale of 101 S. Main St.

- The Village received \$1.5 million from the sale of 101 S. Main St.
- The original policy direction from the F&A Committee was that \$500,000 be set aside for potential economic development purposes, and the remaining \$1 million flow through the waterfall
- The \$500,000 was set aside for economic development
- However, the \$1 million was repurposed towards covering any shortfall due to COVID

Policy Direction Needed

For both the \$950,000 estimated remaining from the 2019 revenues over expenditures, and the \$1 million from the sale of 101 S. Main St.

Options:

- Run these funds through the waterfall
- Set these funds aside for potential economic development related use
- Fund Hotel/Motel shortfalls so as not to need to use reserves
- Fund 25% of Hotel/Motel that can go towards Economic Development, that had to be repurposed back to cover Hotel/Motel expenses due to the low revenue coming in this year

It should be noted that Hotel/Motel Taxes are coming in worse than anticipated

- The FY20 original budget was \$2,041,830
- The FY20 YE Est was \$813,360
- With one month remaining, it appears that FY 20 actual revenue will be approximately \$720,000, or \$100,000 below the YE Est
- FY21 revenue is budgeted at \$1,178,000; this may be a little high as well
- At the reduced YE Est/Budget amounts, Fund Balance was estimated to be down to \$448,000 at the end of 2021
- It now appears as though the Hotel/Motel account may wind up with around \$300,000 at the end of 2021

Covid Grants and Loans Summary

Program	Funded by	Dollars Awarded	Number
Hospitality Emergency Grant Program	State of Illinois	\$ 60,000	3
Business Interruption Grant (BIG), Round 1	State of Illinois	\$ 150,000	8
Business Interruption Grant (BIG), Round 2	State of Illinois	\$ 660,000	24
Child Care Restoration Grant (part of BIG)	State of Illinois	\$ 296,546	9
Small Business Relief Grant	Choose DuPage and DuPage County	\$ 425,010	33
Restaurant Small Business Relief Grant	Choose DuPage and DuPage County	\$ 180,000	12
Total		\$ 1,771,556	89
Paycheck Protection Program (PPP)			
PPP, awards over \$150K, Round 1*	Federal Government	\$ 128,000,000	190
PPP, awards under \$150K, Round 1*	Federal Government	\$ 32,000,000	950
Total*		\$ 160,000,000	1140

** numbers are approximate*

As of 1/11/2021

Table does not include EIDL program