


August 7, 2020

TO: Mayor Julie Moore Wolfe & Members of the City Council

FROM: Scot Wrighton, City Manager 
Gregg Zientara, Chief Financial Officer/City Treasurer

RE: COVID-Related Financial Planning

BACKGROUND

On May 11, 2020, the City Council conducted a study session to analyze revenue trends impacting the FY 2020 municipal budget, and tentatively approved a 9-point strategy for keeping the city government solvent through 2020 without the need for any new tax increases on Decatur citizens and property owners, and without the need for compulsory staff layoffs. The council requested an update every two months—extending through compilation and approval of a new budget for FY 2021. Staff gave an extended “Treasurer’s Report” in July, as a part of the July 20th City Council meeting, but it was decided that a more detailed financial analysis would be postponed until the August study session, when more data would be available.

In May, staff estimated that COVID-induced revenue losses to the city’s General Fund would be about \$5.4 million by the end of 2020. The internal and external variables change every month, so the projections change too. In June, staff revised this amount to an estimated \$5.6 million revenue shortfall. In July, staff revised this amount again to an estimated \$5.2 million revenue shortfall. These estimates did not include expected reductions in motor fuel taxes (MFT) due to reduced fuel sales, because MFT is not a General Fund revenue. As of this writing, staff still believes the General Fund revenue shortfall will be between \$5.0 and \$5.5 million by the end of 2020.

CURRENT STATUS

An update on the progress of the 9-point financial strategy for FY 2020 is attached. While several components of the 9-point financial strategy remain to be fully implemented, it is now possible to report that efficiency and cost reduction measures implemented to date, along with grant reimbursements received (or to be received prior to December 31, 2020) are estimated to reduce originally budgeted expenses in the General Fund by between \$3.0 and \$3.3 million. This means that the net loss to the General Fund (the gap between locally financed expenditure reductions and revenue losses that must be charged to unrestricted cash reserves) will be approximately \$2.0 million—much less than the amount staff predicted would need to come from reserves back in May. I am grateful to the city’s department heads, division heads, and AFSCME for their creativity and flexibility in finding more places for savings than was first anticipated in May.

Some of our initial assumptions on pandemic revenue impact were too pessimistic, while other revenue assumptions were overly optimistic; but in the aggregate the General Fund totals are tracking closely to the original projection. Of course, all projections are subject to the ever changing circumstances of the national economy and the COVID pandemic, and how these developments ripple through retail sales volume, unemployment costs, the financial condition of the State of Illinois, consumer confidence, and local spending habits.

In order to mitigate the pandemic's negative impact on City revenues, we implemented spending containment measures limiting expenditures (including staffing reductions through attrition and turnover), but we have still maintained basic service delivery without disruption or interruption—even if service quality has been less than optimal during this period. The budget authorizes total staffing of 449; but this number has been reduced to 432, entirely through attrition and natural turnover.

Our current General Fund projections are as follows:

The City's General Fund cash reserves began FY 2020 at \$8.3 million, or 43 days cash reserve. By continuing to implement the 9-point financial plan, the city will draw down the General Fund cash reserve from \$8.3 million to about \$6.3 million at year's end—or a reserve of only a little over a month. It is recommended, however, that the City Council refrain from further cash reserve reductions. The purpose of the General Fund's cash reserve is to have a level of cash in reserve to enable the City to withstand unforeseen financial shocks. The 2020 pandemic was just such a shock. After weathering the shock, the city should commit to eventually restoring reserves to the 60-day level envisioned in City Council policy. Now that we are beginning to chart a recovery course, I believe we should not continue to draw down reserves, and instead should find a way to provide services within the new realities ('new normal') of reduced General Fund revenues.

LOOKING TO 2021 & BEYOND

To avoid further draw-downs from cash reserves in 2021, even more budget discipline will be required in crafting the FY 2021 budget. This will be challenging because most financial forecasting indicates that revenues available to State and local governments in 2021 will be less than they have been in 2020. This means that the city of Decatur's \$5+ million dollar 2020 General Fund revenue shortfall will be substantially greater in 2021. Attached council packet materials include market projections from some of the same third party sources cited in May (PMA Asset Management, Center on Budget and Policy Priorities, and Manulife Investment Management). These and other sources project further reductions in consumer spending, nonfarm payrolls, personal income, and funds available to States and local governments. The economic disruptions created by the pandemic hit the State of Illinois with a \$2.7 billion shortfall in 2020; but this will grow to \$4.6 billion in 2021, according to the Center on Budget and Policy Priorities.

Current models suggest we will be well into 2022 before we can expect to see significant economic rebounds. Although the State of Illinois has resisted “robbing Peter to pay Paul” by taking municipal funds to fill the State’s budget gaps in the current fiscal year, the State of Illinois (with almost no reserves) will likely look to local governments’ revenue sources to shore-up State finances in 2021, as they have done in previous years. For this reason, the city of Decatur’s General Fund may need to shrink by as much as ten percent (10%) in 2021. This will require more than belt-tightening; it will require a fundamental re-evaluation of those services that can be reduced or curtailed, because some of the reductions approved by the City Council may have to become permanent.

The attached “Options for Fiscal Year 2021” is only a starting point for the ideas that staff would like to discuss with the City Council as we prepare the 2021 budget. Also attached is a copy of the City Council’s 2019 Strategic Goals (updated every two years following municipal elections). With these two documents, it is hoped that the study session discussion can provide initial parameters for starting work on next year’s budget.

Staff will continue to monitor all revenues and expenses, and continue the control of expenditures to essential items, in order to limit the negative impact of the pandemic on the City General Fund; but it is not too early to begin planning for what the next year’s budget will, of necessity, require.

At the Monday night study session, it is requested that the City Council:

1. Verify that the course adopted for the rest of FY 2020 is acceptable, and/or make changes to the financial plan for the rest of 2020 as council members believe to be appropriate; and
2. Provide preliminary feedback to staff on the possible measures that should be considered for inclusion in drafting and preparing the 2021 budget (particularly the General Fund).

Based on general parameters provided by the City Council, staff will begin preparing the draft 2021 budget in September, with the expectation that a “City Manager’s Recommended Budget” will be presented to the governing body in late October, for subsequent review in a series of council study sessions beginning in November. The final version of the budget should be formally adopted in December.

May, 2020 Nine-Point Financial Gap-Closing Plan for FY 2020 (updates in red):

1. Refinance and restructure the city's long-term debt.
The city's new bond underwriter managed the refunding/re-financing of two bond issues from 2010 and 2013. The long-term savings accomplished from these transactions exceeded staff estimates, but none of the 2020 savings will accrue to the General Fund. The city saved more than \$1.9 million in future debt service payments, but most of these savings will accrue to the Water Fund. However, in future years this debt refinancing will reduce the General Fund's contribution to retiring downtown improvement bonds.
2. Anticipated relief funding from the State and Federal governments. The attached memo from Deputy City Manager Kindseth details the extent of the city's efforts to secure and obtain grant monies above and beyond those anticipated in the council-approved 2020 budget. The estimated total in special grant funds exceeds \$9.8 million. While this is impressive, more than 95% of these funds will go to Non-General Fund expenses, or to COVID add-ons to the General Fund that were not a part of the FY 2020 approved budget anyway. In May, staff estimated that the direct offsets to budgeted General Fund costs would be about \$250,000. We now between that the offset to 2020 budgeted expenses will be between \$300,000 and \$350,000. These intergovernmental calculations assume no funding from any future federal bailout for revenue gap losses paid directly to local governments. This political situation could change, but at this writing the U.S. Senate version of the next COVID Relief package includes no direct assistance to local governments for their revenue losses.
3. Establish an Employees' Clinic (& other measures) to reduce group health care costs. Not yet implemented; council action anticipated next month. 2020 General Fund projected savings of \$125,000 will likely be slightly less due to delay. Net projected savings in 2021 to the General Fund is \$350,000.
4. Eliminate/Restrict "non-essential" expenditures. This means aggregated and projected savings from cancelling some planned vehicle purchases, delayed software upgrades, non-replacement of certain staff positions vacated through normal attrition and retirements, training and travel cancellations, and other miscellaneous expenses. In May, staff projected aggregate savings by year's end at \$1,850,000. Now staff estimates total year-end savings between \$2.7 and \$3.0 million.
5. Temporarily reduce funding to police & fire pension funds. The city has historically funded its fire and police pensions at or above the 100% level, but the law requires that we fund no less than 90%. With the current year tax levy already set, these savings would mostly occur in 2021. No action has been taken on this strategy. If utilized, action would not be taken until the City Council enacts its annual tax levy ordinance in December. The City Council will have additional opportunities to update its financial projections prior to December and, on the basis of this additional information, can decide if it wishes to pursue this cost saving step later in the year.

6. Delay some planned capital expenses based on new decision matrix. The May study session included a matrix for deciding what capital projects can be considered for delay, and project list. Staff is using this matrix to delay or advance projects, but it does nothing for the General Fund in 2020. Savings from use of the matrix are already calculated into #4 above.
7. Other Modest Revenue Enhancements & Expenditure Reductions. The city staff is examining possible changes to vehicle leasing contracts, central garage operations, workers comp./general liability insurance pooling, and other cost reductions. If approved by the City Council, most of the financial benefits will accrue to the 2021 fiscal year budget, with only small savings credited to 2020. No new revenue enhancements, besides those already included in the 2020 budget, are planned at this time.
8. & 9. Restricted reserves are for use in unplanned emergencies. In the May 2020 study session memo, it was tentatively proposed that up to \$3.0 million in a combination of unrestricted General Fund reserves, and reserves in the city's insurance and risk management funds be applied to covering the remaining gap between revenue losses and implemented expenditure reductions. The combined financial effect of the strategies implemented so far (mostly #2 and #4) means that the estimated amount required will decrease to approximately \$2.0 million.

OPTIONS FOR FISCAL YEAR 2021:

1. Partially or completely shut-down the Decatur Civic Center's availability for nearly all functions other than use as municipal offices to reduce the large subsidy provided by the General Fund to the Civic Center (\$435,000 paid in 2019 for 2020; projected to be more than \$550,000 in 2020). We have advanced paid this contribution for the coming year in the previous December, so decisions about this expenditure effect the 2020 estimates.
2. Increase the deployment of CLOs and other non-sworn positions to back-up security and provide social services support to police officers, as natural attrition continues to occur in the Police Department; and similarly provide fire inspection services with trained shift firefighters rather than a separate fire inspection/prevention bureau.
3. Move public safety plan review services to the Community Development Department, and outsource peak occasion building plan reviews when internal staff cannot turn-around plan reviews in a timely fashion.
4. Join an insurance pool for workers compensation/general liability/casualty and facility loss coverages.
5. Negotiate a reduction in services with Macon County for shared animal control services (current annual cost to the city: \$612,000).
6. Reduce direct cash support to external agencies (senior center, convention & visitors bureau, EDC, CIDC) currently subsidized by the General Fund.
7. Combine IT with those of other local government entities (and quasi-governmental entities) to reduce costs.
8. Combine HR with those of other local government entities (and quasi-governmental entities) to reduce costs.
9. Seek to combine other selected service operations with other local governments: such as central garage/maintenance services, road/street maintenance, GIS, combined purchasing, building inspection services and/or fuel management, and construction supervision (or partially outsource).
10. Completely outsource the Forestry Division of the Public Works Department to regional tree services for both new tree planting and maintenance of existing ROW trees, as natural attrition in the Public Works Department permits by reassigning personnel.
11. Temporarily cease emergency response from Fire Station #1 (retain for administrative use) and temporarily reallocate Station #1 service territories to the remaining 6 fire stations until the end of the COVID crisis to reduce staffing costs.
12. Although no new taxes will be included in the proposed 2021 budget, consider selective user fees adjustments where the city is not recovering its cost of operations and service delivery (business registration, rental inspection/registration, next round of lake use fee increases, etc.).
13. Use a multi-year vehicle leasing strategy to spread out vehicle purchases so the city can meet its needs without placing undue burden on the FY 2021 budget.