



STATE GROCERY TAX ELIMINATION

LOCAL IMPACT

AND REVENUE
REPLACEMENT DISCUSSION

FINANCIAL ADVISORY BOARD
APRIL 28, 2025



TONIGHT'S DISCUSSION

- ◆ Financial management over the past decade
- ◆ Budgetary impact of the grocery tax elimination
- ◆ Revenue replacement discussion

TONIGHT'S ASK

Do you recommend that the City Council implement a replacement revenue source to offset General Fund revenue lost due to the elimination of the 1% state grocery tax?



THE ISSUE: STATE GROCERY TAX IS BEING ELIMINATED



1% state sales tax on food,
drugs & medical appliances

Known as a grocery tax
because it is charged on food
sold at a grocery store to take
home, prepare and consume



Revenue passed through to
local municipalities

Money goes into Naperville's
General Fund, which supports
the most critical city services
(e.g. Police, Fire, Public Works)



Tax eliminated as of
Jan. 1, 2026

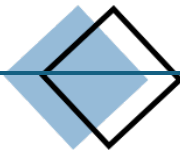
Legislation allows
municipalities to implement 1%
local grocery tax, essentially
one-to-one replacement

WHY IT MATTERS: REVERSES EFFORTS TO RIGHT-SIZE SERVICES



Despite significant global events, the City has been able to maintain or enhance services with existing revenue streams thanks to a series of actions that began in 2015.

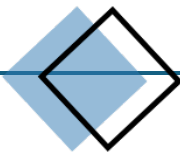
2015



Financial Principles & Home Rule Sales Tax (HRST) Implemented

- 25% debt reduction & cash reserve replenishment to 25% over 8 years
- Structurally balanced operating budgets
- Continuous improvement of cost-effective service delivery

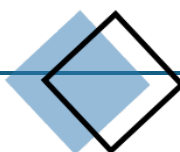
2020



Global Pandemic Begins

- Success of Financial Principles, HRST lets City maintain existing service levels throughout

2022 – 2024



Strategic Service Investments

- Financial position coming out of the pandemic allowed for service enhancement vs. reinstatement
- Utilized existing operating revenue streams
- Coupled with economic growth & revenue diversification, City was able to maintain lowest property tax rate in 50+ years



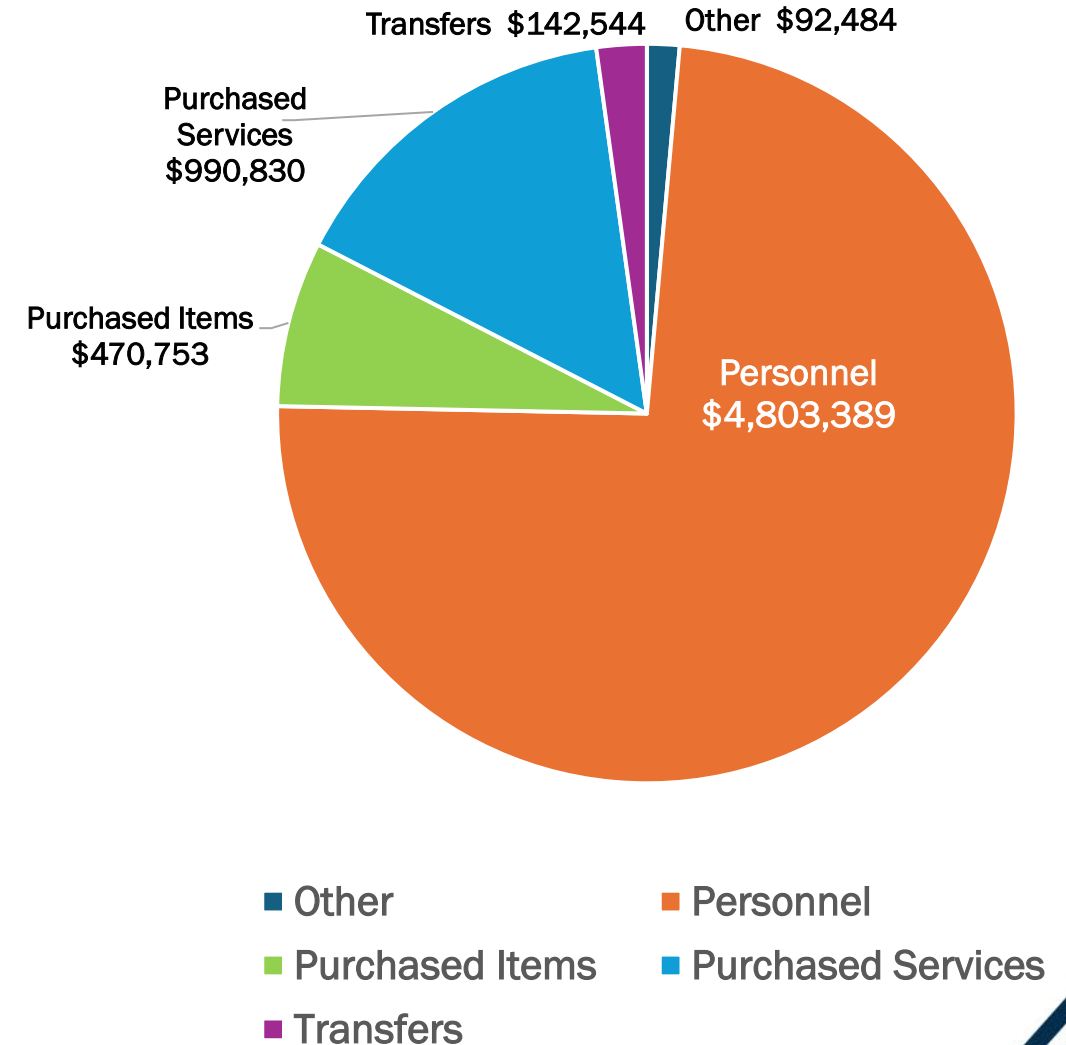
WHY IT MATTERS: WILL NEGATIVELY IMPACT SERVICES

TAX ELIMINATION RESULTS IN GENERAL FUND REVENUE LOSS OF \$6.5M

- No impact to utilities, capital projects, or special funds
- Compounds year-over-year
- Majority of General Fund dollars pay for operating personnel & purchased services
- Revenue loss of this amount without replacement dollars would lead to position & program reductions

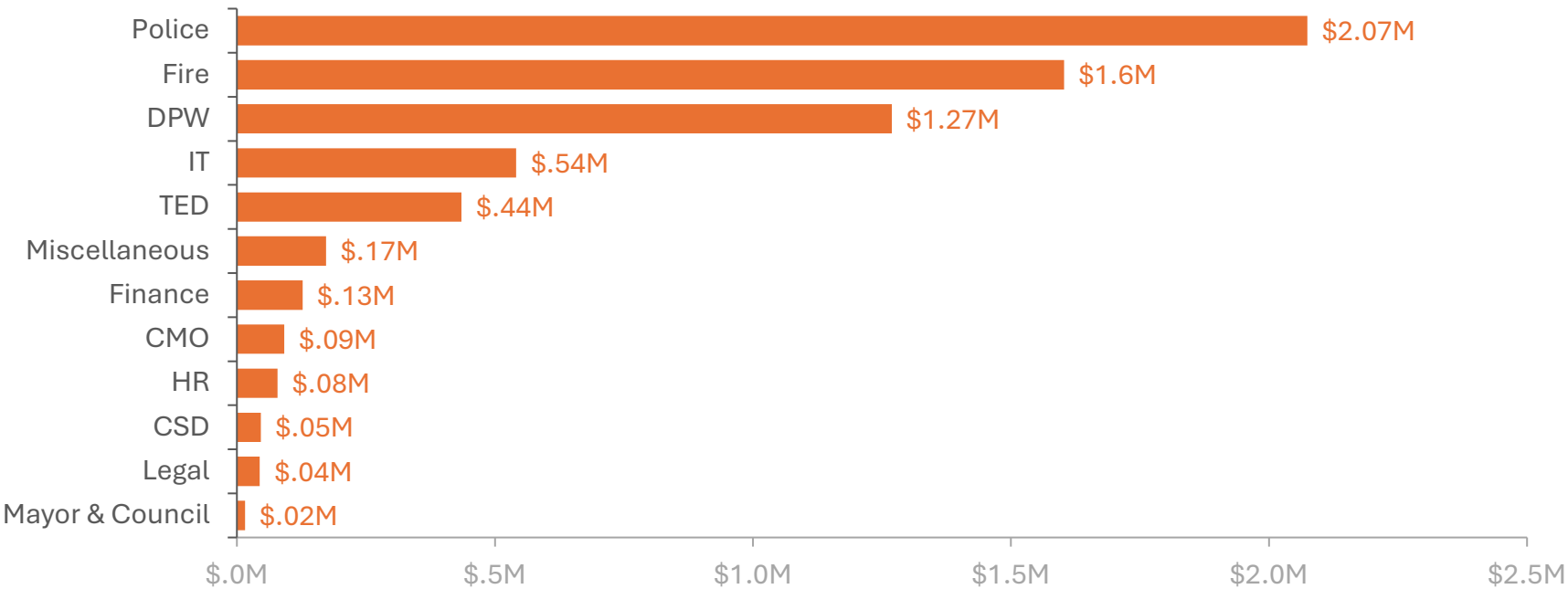
SERVICE IMPACTS WOULD BE MISALIGNED WITH COMMUNITY EXPECTATIONS

- 2023 Citizen Survey: 92% rated quality of services as excellent or good – slight increase from 2016



WHY IT MATTERS: PUBLIC-FACING SERVICES MOST IMPACTED

General Fund Reduction by Department



Police, Fire, Public Works account for the largest share

- Leads to immediate public safety impacts
- Personnel serve more than one program simultaneously
 - a reduction in one automatically impacts another

Increasing cuts to internal service departments does not solve the problem

- Budgets are too small to solve a gap of this amount

REPLACEMENT OPTION 1: REPLACE W/ LOCAL 1% GROCERY TAX



City would apply same 1% tax as the state to the same items; consumers pay \$1/\$100 spent



Acts as one-to-one replacement for eliminated state tax



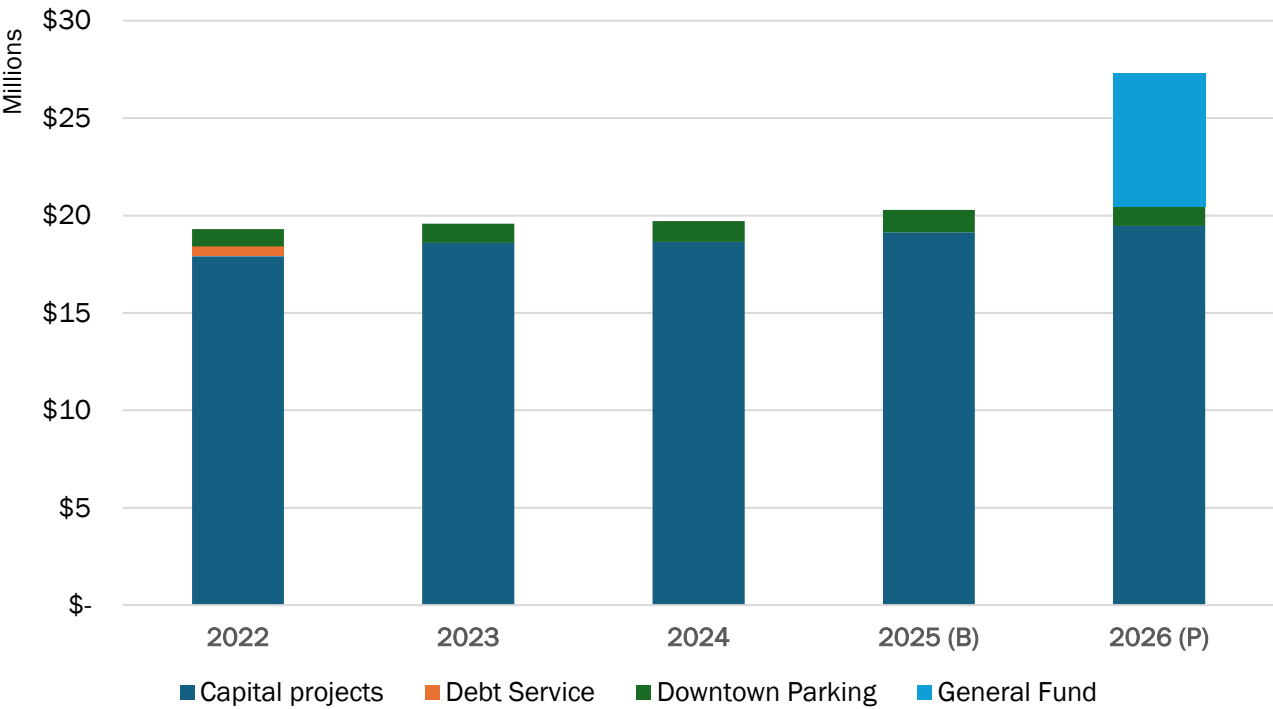
Replaces lost revenue without increasing the tax burden



50+ communities have already filed to implement replacement local grocery tax



REPLACEMENT OPTION 2: INCREASE HRST BY 0.25% FROM 0.75% TO 1%



Municipality	Current HRST Rate	Current Total Sales Tax Rate
City of Naperville	0.75%	7.75%
Arlington Heights	1.00%	10.00%
Downers Grove	1.00%	8.00%
Schaumburg	1.00%	8.00%
Wheaton	1.00%	8.00%
Aurora	1.25%	8.25%
Evanston	1.25%	10.25%
Woodridge	1.25%	8.25%
Bolingbrook	1.50%	8.50%
Elgin	1.50%	10.50%
Elmhurst	1.50%	8.50%
St. Charles	1.50%	8.50%
Joliet	1.75%	9.00%



Revenue generated from 1% HRST estimated to be similar to grocery tax

- Consumers would pay an additional \$0.25 per every \$100 spent on a qualifying purchase

Naperville would remain tied for the lowest total sales tax rate in surrounding comparable communities

- Same as Downers Grove, Schaumburg, Wheaton

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