



STATE GROCERY TAX ELIMINATION

LOCAL IMPACT

AND REVENUE
REPLACEMENT DISCUSSION

FINANCIAL ADVISORY BOARD
MAY 19, 2025



TONIGHT'S DISCUSSION

- ❖ Fundamental questions that came out of the April 28 discussion
- ❖ General Fund historical spend & overview of budget process
- ❖ Revenue replacement discussion

FUNDAMENTAL QUESTIONS



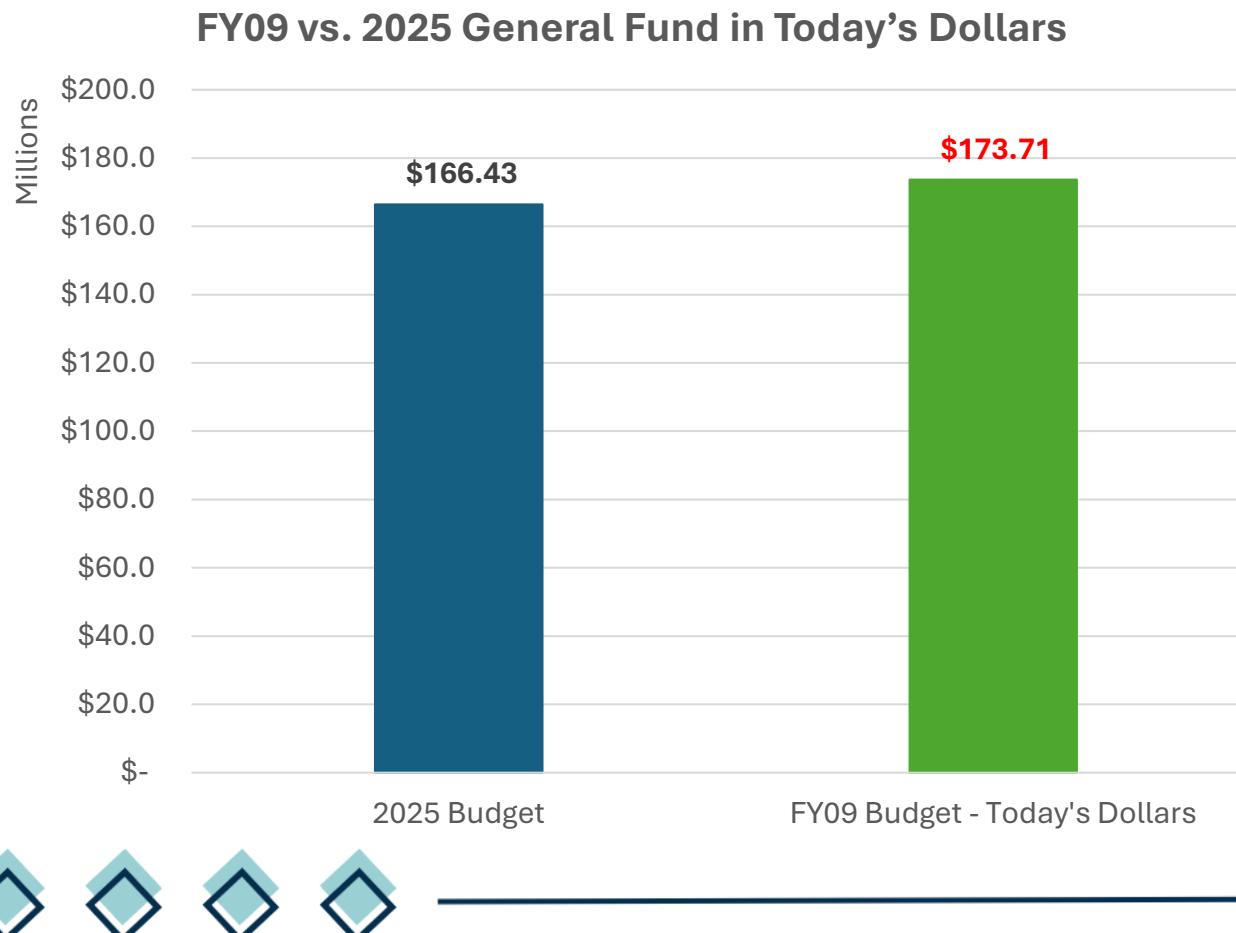
❖ **IS A REVENUE REDUCTION OR ELIMINATION BY ANOTHER ENTITY A MANDATE TO REDUCE SERVICES?**

- Service levels are defined at the local level, based on community needs and wants
 - Public service needs remain constant even as the economy fluctuates
- The Grocery Tax was eliminated by the state with the provision for local control
- Revenue loss of this amount without replacement dollars would lead to position & program reductions

❖ **IS THE CITY OVERSPENDING FOR GENERAL FUND SERVICES?**

- Several indicators suggest the answer is no, both in a historical context and compared to other communities
- Budget constraints resulting from changing economic conditions are managed through the annual budget process

HISTORY SHOWS WE CONTINUE TO DO MORE WITH LESS



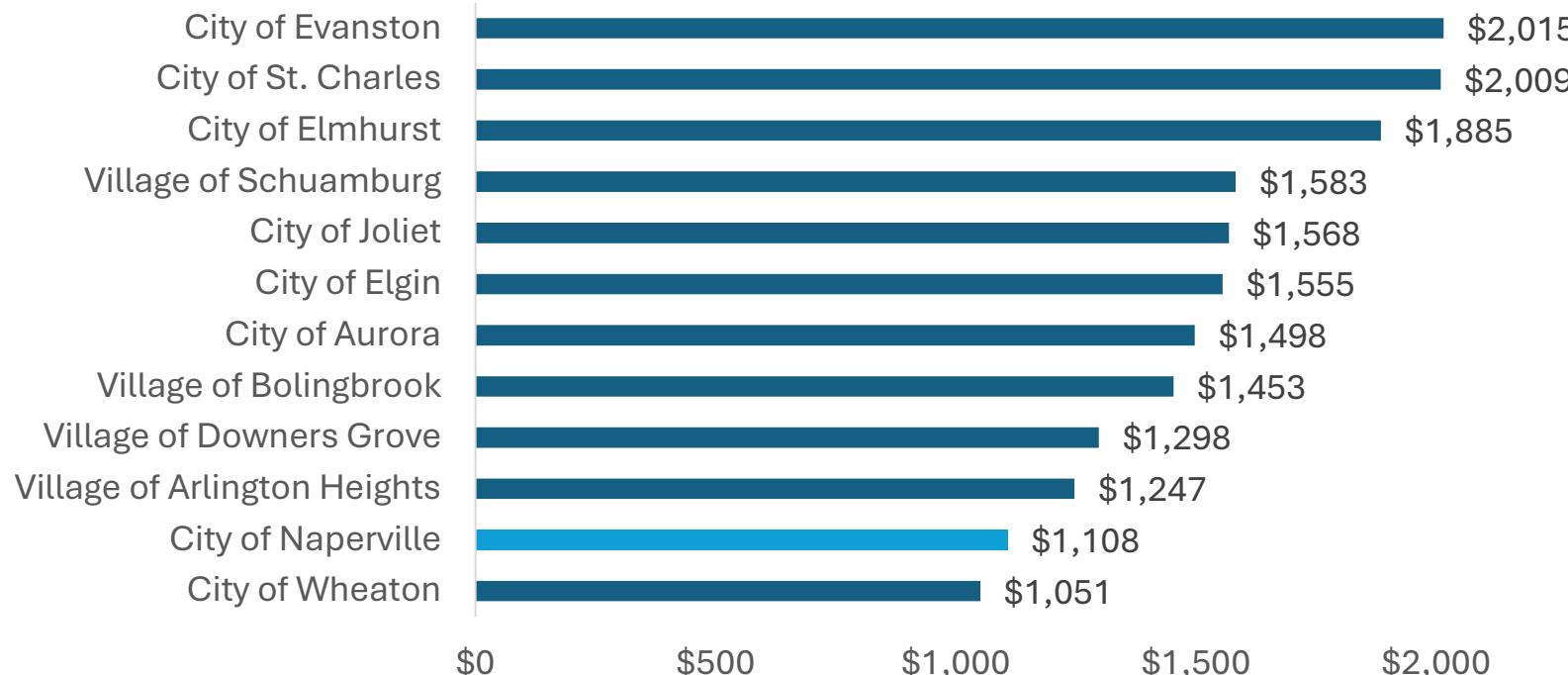
Year	Employee Count	Employees per 1,000 Residents
FY09	1,101	7.75
2025	996	6.50

The General Fund budget remains lower than before the Great Recession

- The 2025 budget is \$7.28M less than the FY2009 budget in today's dollars (CPI adjusted)
- 2025 employee count of 996 remains well below the FY09 level of 1,101, even though we serve a population that is 5.7% larger

WHILE SPENDING LESS THAN OUR PEERS

General Fund Budget per Resident

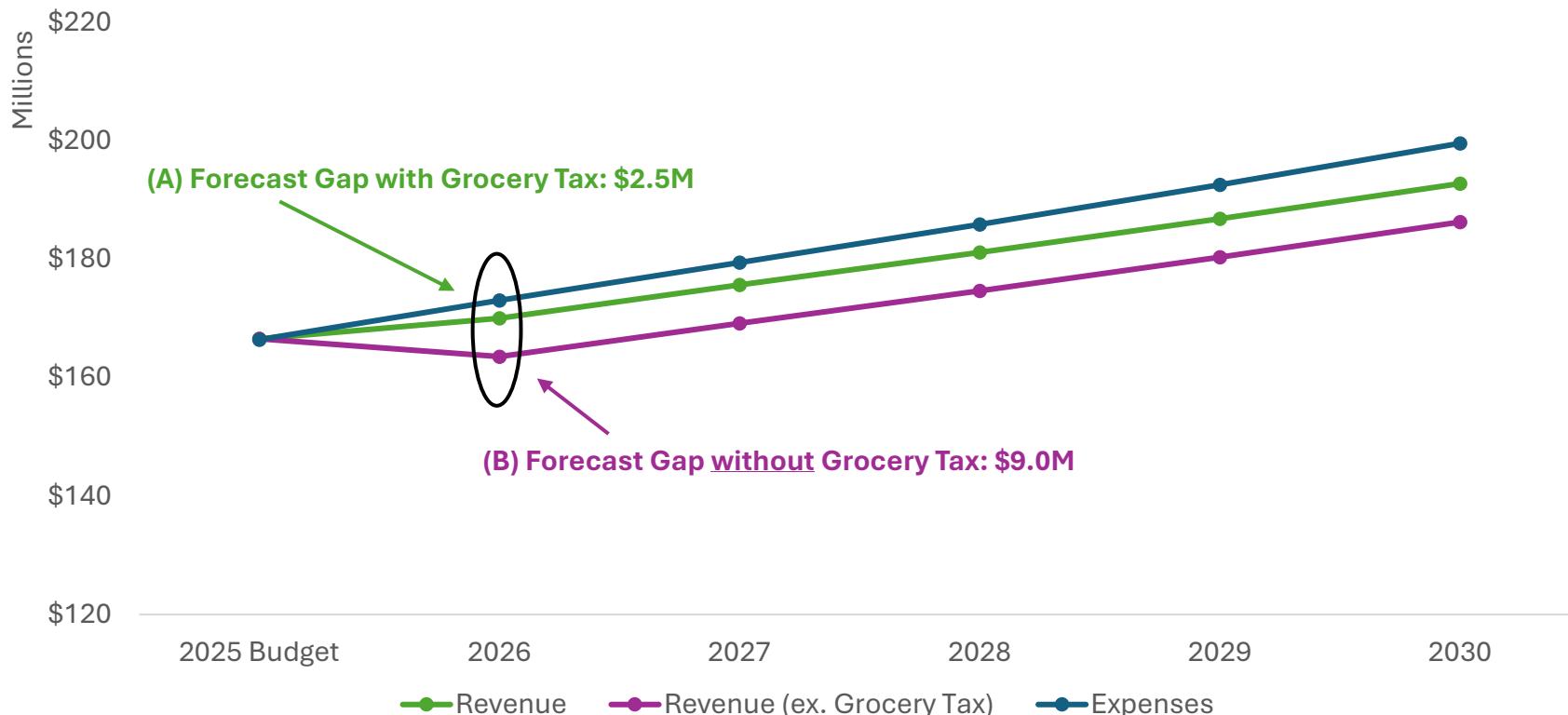


Naperville's General Fund serves a higher population at a lower cost than most other comparable suburbs

- Supported by Naperville having lower property tax and home rule sales tax rates than comparable communities
- What this means: We do not have the budgetary capacity to absorb the permanent loss of a revenue stream without drastically reducing city services or establishing a replacement revenue stream

OTHER BUDGETARY PRESSURES REQUIRE ACTION

General Fund 5-Year Forecast



Budget is built on assumptions – departments need to know the assumptions now

- Revenue stream availability is a critical assumption – a structurally balanced budget cannot be developed without it
- Scenario A can be resolved through the normal budget development process
- Scenario B requires significant service level reductions

BUDGET PROCESS & TIMELINE



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?



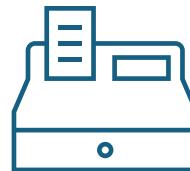
REPLACEMENT OPTION 1: REPLACE W/ LOCAL 1% GROCERY TAX



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



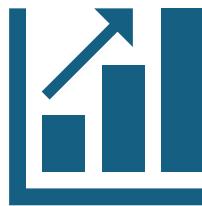
50+ communities have already filed to implement replacement local grocery tax



52% of shoppers at Naperville's top 10 grocery stores live outside of Naperville

Source: PlacerAI courtesy of Naperville Development Partnership

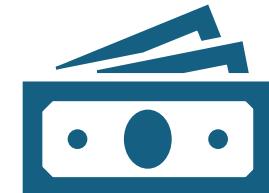
REPLACEMENT OPTION 2: INCREASE HRST BY 0.25%



Current HRST rate: 0.75%
New HRST rate: 1%



Consumers would pay an additional \$0.25 per every \$100 they spend on general merchandise & food for immediate consumption



Staff believes this option would fully replace the anticipated lost Grocery Tax revenue