



# 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

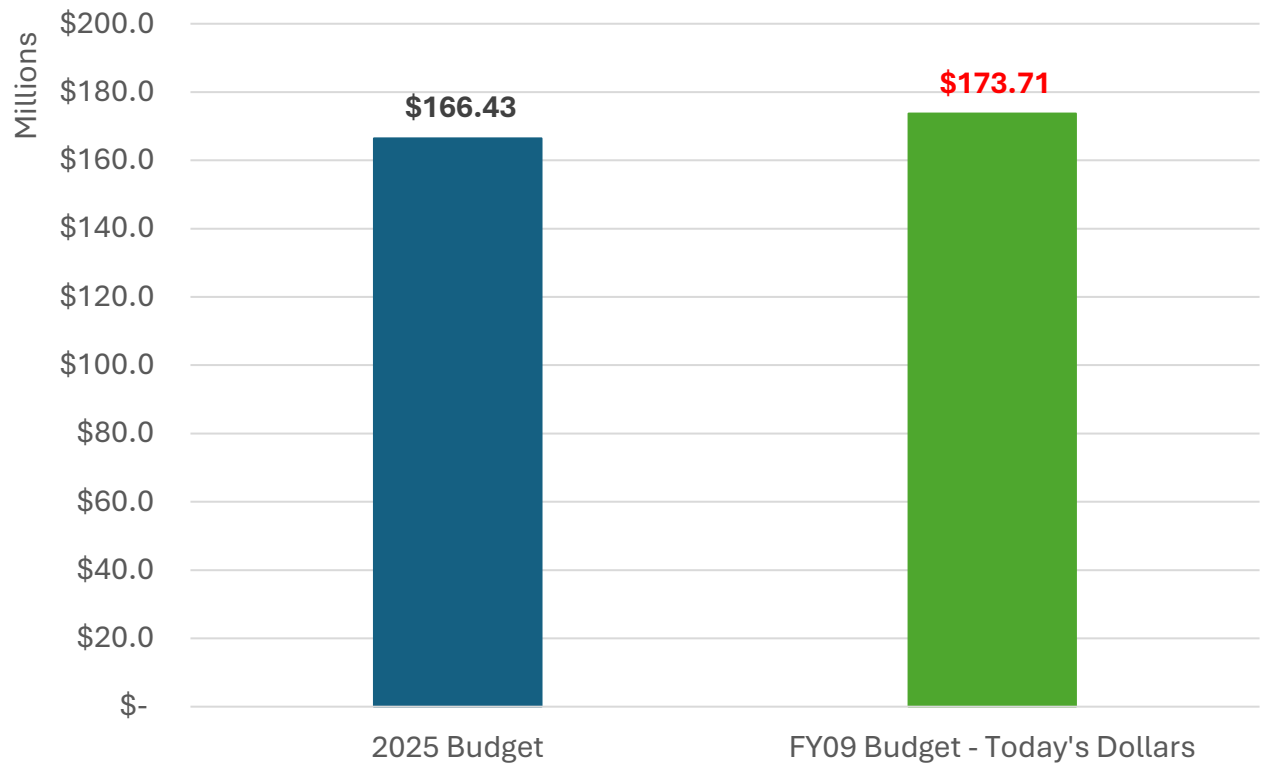
## IS THE CITY OVERSPENDING FOR GENERAL FUND SERVICES?

- 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

FY09 vs. 2025 General Fund in Today's Dollars



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

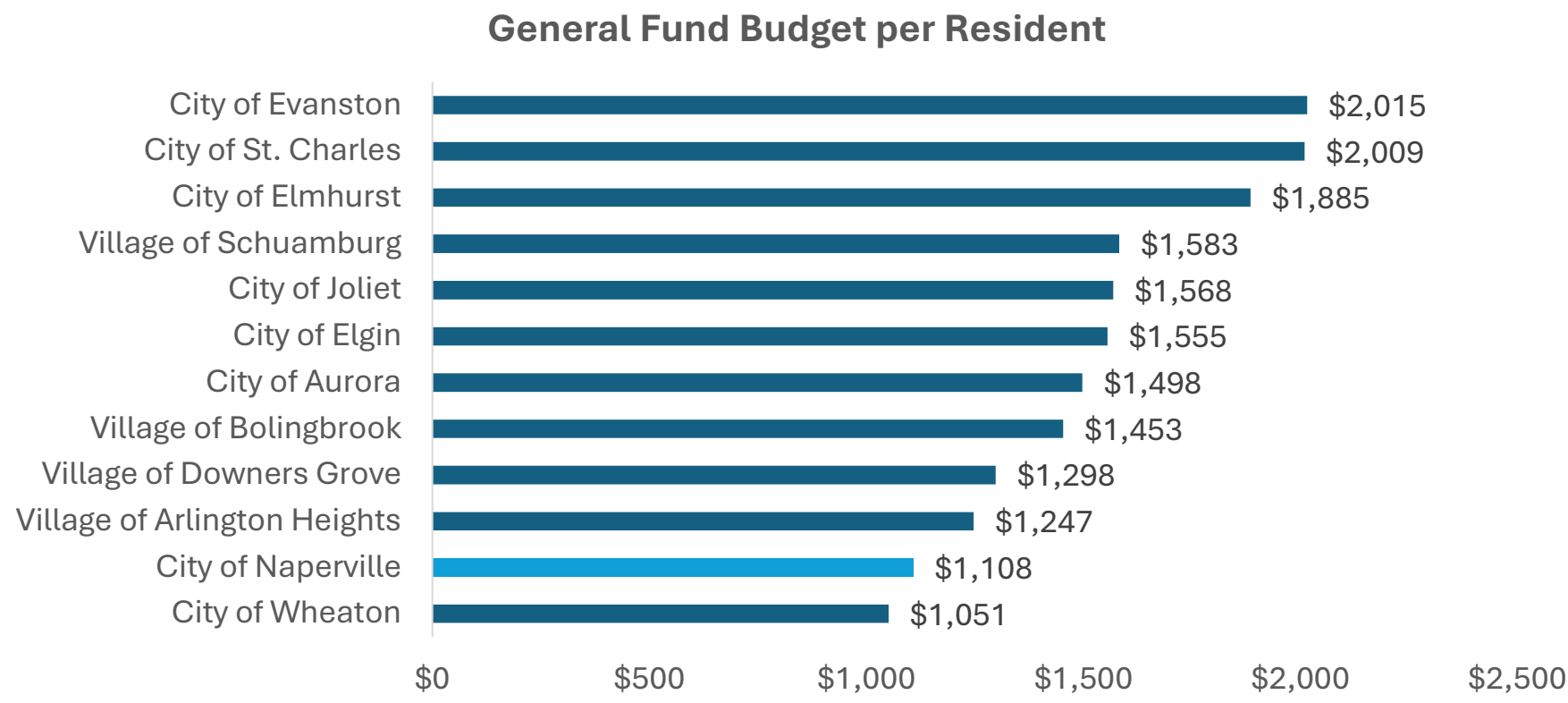


## The General Fund budget remains lower than before the Great Recession

- 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

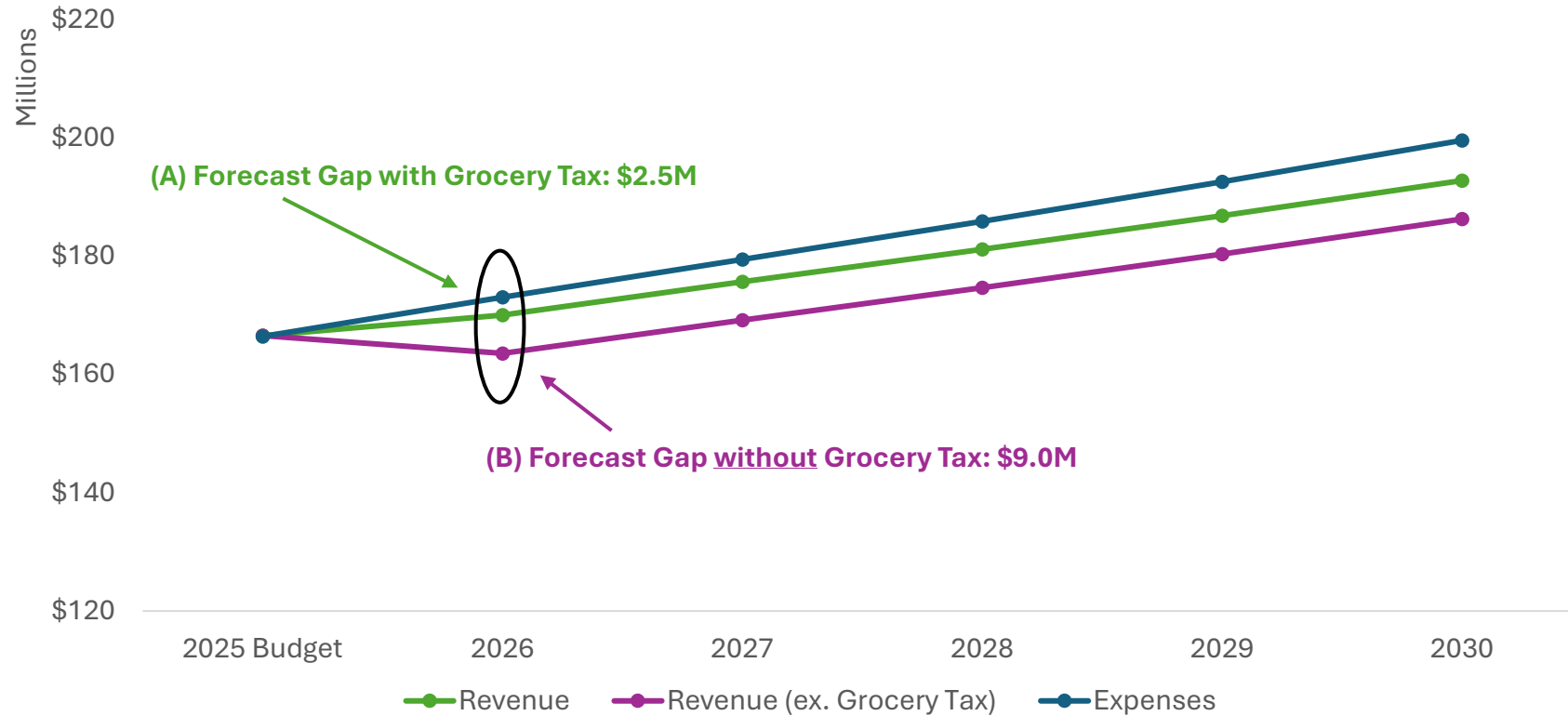


## Naperville’s General Fund serves a higher population at a lower cost than most other comparable suburbs

- 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



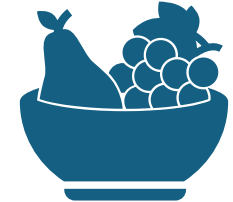
City would apply same 1% tax as the state to the same items; consumers pay \$1/\$100 spent



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*



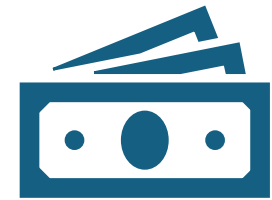
# REPLACEMENT OPTION 2: INCREASE HRST BY 0.25%



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

