

**CITY OF NAPERVILLE
MEMORANDUM**

DATE: November 21, 2017

TO: Mayor and City Council

FROM: Douglas Krieger, City Manager
Erik Hallgren, Financial Services Supervisor

SUBJECT: **CY2018 Proposed Budget Workshop #3 - Overview**

PURPOSE

The purpose of this memorandum is to provide City Council with an overview of the third Calendar Year (CY) 2018 proposed budget workshop, which will include a discussion on revenues, miscellaneous City funds and follow-up requests from the first two budget workshops, as well as decision points to finalize the CY2018 budget and property tax levy request.

DISCUSSION

Revenue Summary

The City of Naperville derives its revenues from a variety of sources, including charges for service, property taxes, use taxes, state shared revenues and utility taxes. Diversity in revenue sources is a strength for the City and positively impacts Naperville's AAA bond rating from the two major rating agencies. In CY2018, citywide revenue is projected at \$454.3 million, a 2.7% overall increase from CY2017.

Most of the proposed CY2018 revenue is anticipated to come from charges for service (\$243.2 million, a 5.7 % increase from CY2017). Other major sources include:

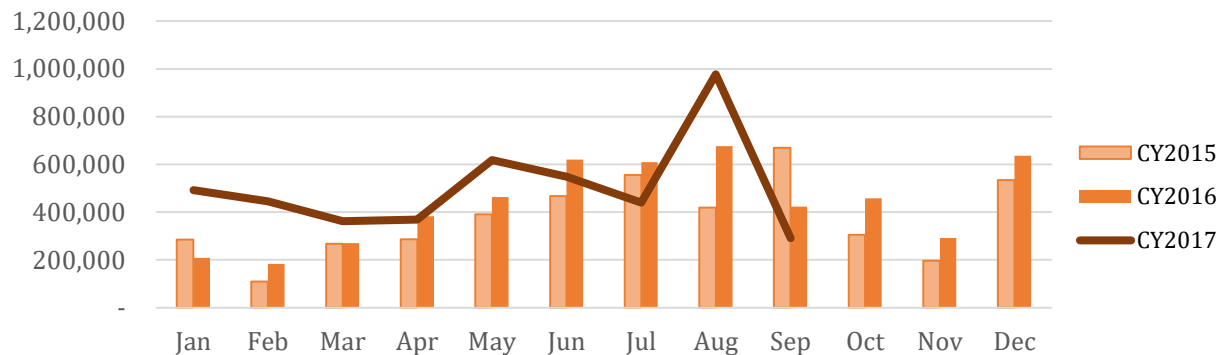
- **Charges for Service**
 - \$243.3 million; 5.7% increase
- **Use Taxes (Sales Taxes, Gas Tax, Food & Beverage Tax, Hotel Tax)**
 - \$52.2 million; 1.8% increase
- **State Shared Revenues**
 - \$17.6 million; 3.7% decrease due to reduction in payments from the State of Illinois
- **Utility Taxes**
 - \$16.3 million; 1.5% decrease
- **Property Taxes**
 - Used to fund operations, debt service, Settlement, Library, pensions and Special Service Areas
 - \$51.6 million; 8.0% increase

The City continues to see positive trends for its economic condition; these are encouraging and show Naperville has moved into a stable financial status post-recession. However, the City is staying its course of conservative estimates for revenue projections in 2018 due to financial volatility at the national and state levels.

Below are several of the major categories of use taxes that act as financial indicators for the City and staff projections for these use taxes in CY2018.

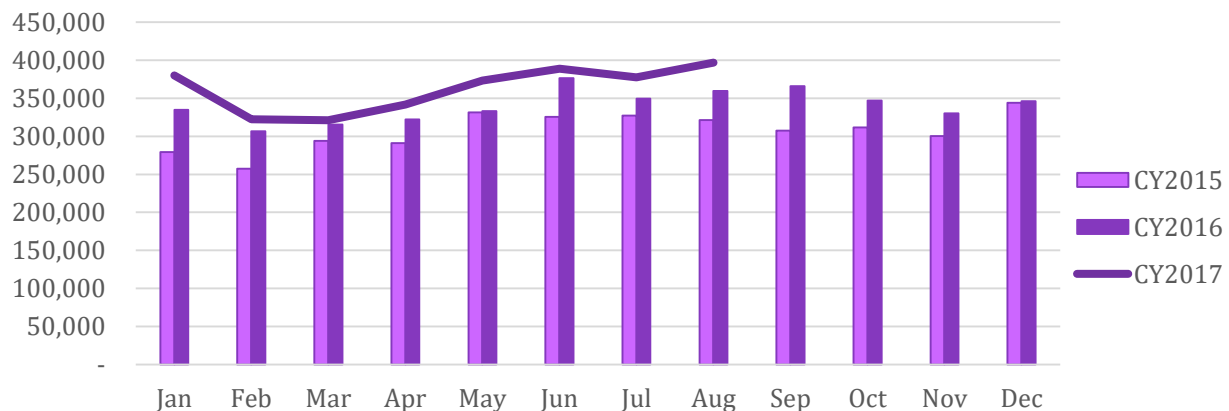
Real Estate Transfer Tax

One indicator that the City uses to measure economic health is the City's Real Estate Transfer Tax. This revenue saw growth in CY2017, with the average sale price of a home rising to \$392,000, which is up from the CY2016 sale price of \$380,000. Year to date, commercial sales prices have risen dramatically, with the average sale price growing from \$5.8 million in CY2016 to \$8.6 million in CY2017. The current CY17 projection for this tax is \$5.8 million. Staff has budgeted \$5.4 million for 2018, an 8.9% increase over the CY2017 budget. Staff has taken a conservative approach to the 2018 projection due to major sales occurring in 2017 that impacted the numbers.



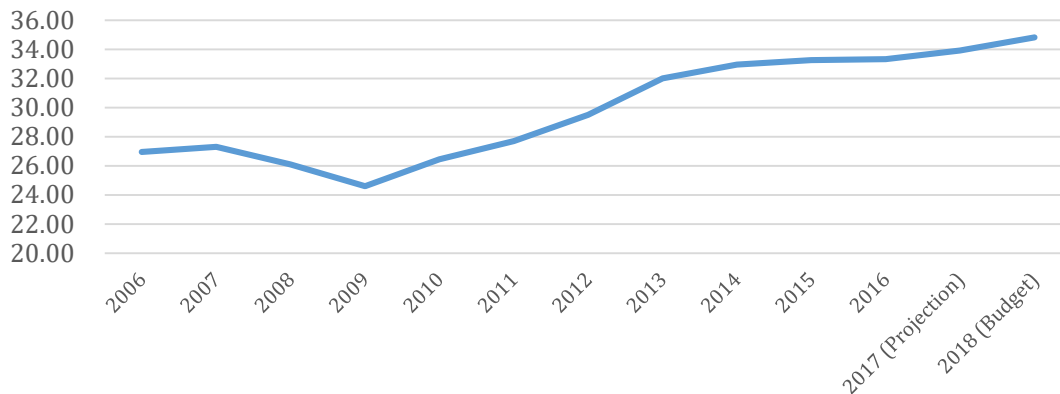
Citywide Food and Beverage Tax

A second indicator that the City uses to measure economic health is the City's food and beverage tax, which continues to outperform expectations. Dollars from this tax fund pensions, debt service, the Special Events and Cultural Amenities (SECA) fund and social services. The current CY2017 projection for this tax is \$4.05 million. In CY2018, the City anticipates earning \$4.19 million, a 5.1% increase over CY2017.



Sales Tax

The last major economic indicator is the City's sales tax. This component has held consistent over the last several years, with moderate growth annually. The City is projecting to collect \$33.3 million in CY2017 and is budgeting \$34.1 in CY2018, a 0.5% increase over 2017 budgeted figures.



Follow-Up from Prior Budget Workshops

At the conclusion of the second CY2018 budget workshop, staff presented City Council with a series of decision points for consideration at the third budget workshop. The decision points include adjustments to the Water Utility's rates and the property tax levy, which includes separate decision points on amending the City's pension funding methodology as well as addressing the Council-requested \$1.2 million in budget and service cuts from the second budget workshop.

Supplemental information on water rates, pension funding methodology and the City's service philosophy and proposed \$1.2 million in budget and service cuts is provided in separate memos within these workshop materials. In addition, follow-up Q&A from the first two workshops is included as an attachment.

RECOMMENDATION

Include this memo as part of the CY2018 Budget Workshop agenda packet.