



Legislation Details (With Text)

File #: 21-0356 **Version:** 1

Type: Report **Status:** Filed

File created: 3/8/2021 **In control:** City Council

On agenda: 3/16/2021 **Final action:** 3/16/2021

Title: Receive the March 2021 Financial Report

Sponsors:

Indexes:

Code sections:

Attachments:

Date	Ver.	Action By	Action	Result
3/16/2021	1	City Council	received	Pass

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the March 2021 Financial Report

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

Developed in response to the unprecedented economic impacts resulting from the COVID-19 pandemic, the monthly financial report provides timely information and data related to the City’s financial position and the local economy. This report is intended to assist the City Council in making strategic financial decisions when necessary and will be presented at the second meeting of each month.

DISCUSSION:

Recent Actions & Trends

Response to the pandemic continues to constantly evolve, and staff is monitoring national, state, and local changes that may impact the local economy.

Recent events include:

1. Vaccination Progress: Administration of the COVID-19 vaccine temporarily slowed in late February due to severe winter weather. As of March 6, the Illinois Department of Public Health (IDPH) is reporting full vaccination of 9.0% of the DuPage County population and 6.7% of the Will County population. The federal government expects vaccination rates to accelerate after the one-shot Johnson & Johnson vaccine received approval on February 28. The White House

now estimates that enough vaccine supply for all American adults will be produced by the end of May.

2. Federal Economic Stimulus: On February 27, the U.S. House of Representatives approved a \$1.9 trillion relief package, known as the American Rescue Plan, which includes \$350 billion in assistance to state and local governments. The U.S. Senate approved an amended version of the legislation on March 6, which is expected to be approved by the House and signed by the President before March 14. Under the proposed legislation, the City would be eligible to receive approximately \$12 million. These potential stimulus funds are discussed later in this report.

Economic Indicators

Staff continues to monitor and report on state and local revenues as indicators of economic recovery. This group of revenues provides insight into the local economy as they are largely driven by consumer behavior. Revenues disbursed by the state on a per capita basis, such as income, motor fuel, and use taxes, are indicators of the broader statewide economy.

1. State Collected Revenues: Revenue disbursements for February exceeded budget projections in total. Monthly projections are based on the historical timing of when the City receives revenue throughout the year as some categories fluctuate more than others from month to month. Because of the State's disbursement schedule, some of these revenues are received three full months after the tax is collected at the point of sale.

As a reminder, sales tax and home rule sales tax (HRST) are disbursed based on actual retail sales occurring within the City. Income tax, motor fuel tax (MFT), and local use tax are disbursed on a per capita basis.

- Sales tax totaling \$2.8 million exceeded budget projections by 2%; however, revenue declined 3% from the prior month. This revenue represents sales that occurred in November 2020. Historically, revenue would increase during the holiday shopping months, but this year, mitigations enacted to stem the resurgence of the pandemic likely impacted sales, most notably in the dining and drinking categories.
- State income tax totaling \$1.7 million exceeded budget projections by more than 15%, with the City continuing to reap the unanticipated benefits of higher Local Government Distributive Fund (LGDF) distributions.
- HRST totaling \$1.0 million fell short of budget projections by nearly 18% and declined more than 7% from the prior month. As a reminder, the monthly budget projection does not account for the anticipated increase in receipts from online sales that will be seen come April.
- MFT, including transportation renewal funds (TRF), totaling \$426,658 exceeded budget projections by 8% but declined nearly 13% from the prior month.
- Local use tax continues to outperform other revenues. January revenue totaling \$583,326 exceeded budget projections by more than 23%.

The Illinois Municipal League (IML) revised its full-year forecast for several revenues in February. These revisions, along with potential impacts of the Governor's proposed state fiscal year (SFY) 2022 budget, will be discussed later.

February State Collected Revenues

Revenue	Projection (\$)	Actual (\$)	Difference (\$)	Difference (%)
Sales Tax	2,777,746	2,832,862	55,116	2.0
State Income Tax	1,431,800	1,652,846	221,046	15.4
Home Rule Sales Tax	1,248,483	1,024,872	(223,611)	(17.9)
Motor Fuel Tax/TRF	394,895	426,658	31,763	8.0
Local Use Tax	509,069	621,607	112,539	22.1
Totals	6,361,993	6,558,845	196,852	3.1

The year-to-date combined state collected revenues are exceeding budget projections by 5.5%. This is largely attributable to the outperformance of sales tax, income tax, and local use tax, which are all General Fund revenues. HRST and MFT continue to lag when compared to projections; however, there does not appear to be cause for concern as we are just two months into the fiscal year and HRST, in particular, should increase come April.

YTD State Collected Revenues through February

Revenue	Projection (\$)	Actual (\$)	Difference (\$)	Difference (%)
Sales Tax	5,503,145	5,753,876	250,731	4.6
State Income Tax	2,565,556	3,216,226	650,670	25.4
Home Rule Sales Tax	2,486,808	2,130,000	(356,809)	(14.3)
Motor Fuel Tax/TRF	990,833	916,132	(74,701)	(7.5)
Local Use Tax	981,848	1,204,933	223,085	22.7
Totals	12,528,190	13,221,167	692,977	5.5

- Locally Collected Revenues: The table below details taxable sales reported on returns submitted to the City and not the actual tax revenue received. Taxable sales provide a clearer picture of economic trends as the receipt of actual revenue can be delayed at times. Returns submitted in February are for January sales. The table includes the final quarter of 2020 as a point of reference.

The numbers show that food and beverage sales were down almost 8% from December. Because some returns are submitted to the City after the reporting deadline, the prior month's sales are often adjusted, which was the case in December. Sales for December were initially reported at \$25.19 million last month but have been revised to \$28.22 million. January sales reported to date are \$26.01 million. This category is expected to improve now that indoor dining restrictions have been eased. Local gas sales improved by more than 8% from the prior month.

Hotel and motel tax returns for the final quarter of 2020 have been totaled. Fourth-quarter sales were in line with third-quarter sales. The recovery in this sector continues to be challenged; however, it is worth noting that sales remained consistent through the fourth quarter and did not experience significant decline during the virus resurgence period.

The real estate market performed well in January, continuing the departure from normal

seasonal trends. January sales at \$144.9 million topped sales from the same period in 2020 by 120%.

Month	Food & Beverage	Hotel/Motel	Local Gas	Real Estate
October	31.80	4.39	4.60	191.77
November	24.28	0.20	3.78	133.49
December	28.22	4.39	3.76	148.18
January	26.01	-	4.07	144.86
YTD Totals	26.01	-	4.07	144.86
\$ in millions				

Revisions to IML Revenue Forecast

In September, the IML published state-shared per-capita revenue estimates for calendar year 2021. Staff utilizes these estimates as a reliable source of information when developing the annual budget. Revenue estimates are offered for state income tax (LGDF), use tax, MFT, state cannabis tax, and personal property replacement tax. IML updates these projections throughout the year based on available data.

IML revenue estimates for 2021 showed declines in several categories due to the ongoing impacts of the pandemic. However, IML recently published several positive revisions to its 2021 revenue estimates, stating that its original forecasts were too pessimistic. It used the pandemic-related impacts on state income tax revenues not being as bad as anticipated as a rationale for the revised forecasts.

The most notable of IML’s revisions is to state income tax distributed through LGDF. IML revised the per-capita allotment from \$92 upward to \$112.40. The 2021 annual budget includes income tax at the \$92 per-capita amount. If the upward revision were to hold, the resulting increase to General Fund revenue could be as much as \$3 million in 2021.

IML cites four primary factors in revising the LGDF forecast:

1. COVID-19 has not impacted higher wage earners as much as lower wage earners.
2. Unemployment benefits, including the emergency supplemental benefits, contributed \$596 million in new income taxes in 2021.
3. Corporate income taxes declined only 5%, which is less than expected.
4. The state returned to the 100% LGDF funding formula in July 2020.

IML revisions with potential budget impact are summarized in the table below.

Revenue	2021 Original Estimate (\$ per capita)	2021 Revised Estimate (\$ per capita)	Potential Budget Impact (\$)
Income Tax (LGDF)	92.00	112.40	3,007,960
Use Tax	39.50	44.00	663,521
Motor Fuel Tax w/TRF	39.40	39.00	(58,980)

However, it is important to note that the February IML revisions were made before the release of the

State of Illinois' proposed SFY2022 budget on February 17. In the proposed budget, the Governor's Office proposes a 10% reduction to LGDF funding, which amounts to a \$152 million reduction in payments to municipalities and counties across the state. The budget proposal does seek to close various corporate tax loopholes that would contribute an estimated \$228 million in additional LGDF disbursements. Both proposals must be approved in the state legislature and staff will closely monitor any developments that may impact City revenue.

Local Economic Support

The Temporary Utility Assistance Program, which was approved by the Council on January 21, began accepting applications on February 15. Details of the program were announced through a press release, on social media channels, and a dedicated page on the City's website. The Naperville Development Partnership and Downtown Naperville Alliance supplemented the City's communication efforts through direct emails to approximately 500 businesses.

Loaves & Fishes is successfully managing the residential portion of the program and provides weekly reports to the City. The Finance Department established an online application process for small business customers through the City's existing GovQA Help Center. Funds remain available for both programs and Loaves & Fishes and the City will continue accepting applications until December 31, 2021 or when funds are exhausted, whichever comes first.

Below is a summary of assistance activity through March 5.

Program	Assistance Approved	Amount Disbursed	Funds Remaining
Residential	38	\$10,434	\$259,566
Small Business	37	\$31,573	\$168,427
Totals	75	\$42,007	\$427,993

Requests for assistance have been fewer than anticipated; however, continued availability of funds will be important as the City resumes its normal utility disconnection process in 2021. This process will begin with direct mailings to delinquent customers encouraging the use of extended payment plans and the temporary utility assistance program. This mailing will provide advanced notice to customers so that steps can be taken to avoid service disconnections when that process resumes, which is scheduled to begin in May.

Federal Stimulus Funds

As noted earlier in this report, the \$1.9 trillion American Rescue Plan is expected to be passed into law in the coming weeks. This proposed stimulus package includes \$350 billion in aid to state and local governments. Funding from the stimulus package for local governments defined as entitlement communities, which are communities such as Naperville that are eligible for Community Development Block Grant (CDBG) funding, is determined by the federal formula used to determine CDBG funding. Based on that formula, the City of Naperville would be eligible to receive approximately \$12 million. While the CDBG formula is used to allocate dollars, the use of these funds would not carry CDBG restrictions. Initial information has indicated the following four uses are acceptable:

1. Respond to or mitigate the COVID-19 public health emergency or its negative economic impacts;
2. Cover costs incurred as a result of such emergency;

3. Replace revenue that was lost, delayed, or decreased as a result of such emergency;
- or
4. Address the negative economic impacts of such emergency.

If approved, the U.S. Treasury would likely issue further guidance on the acceptable use of funds, as was the case with the CARES Act in 2020. Staff will closely monitor any guidance coming from the federal government; however, to ensure the timely and effective use of stimulus funds, staff is encouraging the Council to begin thinking about how those dollars might be used and how those uses would be prioritized. Potential goals to be achieved may include using funds to drive economic reinvestment within business sectors of our local economy, direct assistance to businesses and/or residents, supporting the health and well-being of our community through our non-profits and other partners, and solidifying the City's financial position through the replenishment of City funds.

Upon passage of the legislation, staff will gather available information to assist the Council with this decision-making process. For now, this is preliminary information for consideration.

Next Steps

Staff will continue to bring reports to the Council at the second meeting of each month. These reports will focus on the state of economic recovery and include relevant topics for discussion, such as areas of current or future years' budgets that require additional attention. Staff will report on the full budget, including revenues and expenditures, quarterly in 2021.

FISCAL IMPACT:

N/A