



## Legislation Details (With Text)

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### CITY COUNCIL AGENDA ITEM

#### **ACTION REQUESTED:**

Receive the August 2021 Financial Report

**DEPARTMENT:** Finance Department

**SUBMITTED BY:** Rachel Mayer, Finance Director

#### **BOARD/COMMISSION REVIEW:**

N/A

#### **BACKGROUND:**

The monthly financial report, developed in response to the COVID-19 pandemic, provides timely information and data related to the City's financial position and the local economy. The August report provides continued insight on emerging revenue trends and examines their impact on preparing the 2022 budget.

#### **DISCUSSION:**

##### **Economic Indicators**

Since the July report, the increased prevalence of COVID-19 variants has raised new public health concerns. Staff is closely monitoring the potential economic impacts; however, at this time, all business sectors are operating without restrictions.

##### **State Collected Revenues**

In total, state collected revenues exceed budget projections by 21.9%, or \$9.1 million through July. State income tax continues to be the best performing revenue compared to 2021 projections. The Illinois Municipal League recently issued its second forecast revision, increasing state income tax forecasts by another 8%. Several other trends have also emerged in recent months:

- Sales tax surpassing 2019 amounts by 20% or more for three consecutive months;
- Home rule sales tax (HRST) exceeding 2019 amounts by 17% or more for three consecutive months; and
- Motor fuel tax exceeding budget projections by 15% over the past three months.

### ***YTD State Collected Revenues through July***

<b>Revenue</b>	<b>Projection (\$)</b>	<b>Actual (\$)</b>	<b>Difference (\$)</b>	<b>Difference (%)</b>
Sales Tax	18,743,511	21,512,996	2,769,485	14.8%
State Income Tax	8,960,446	12,782,691	3,822,245	42.7%
Home Rule Sales Tax	7,502,485	9,585,841	2,083,355	27.8%
Motor Fuel Tax/TRF	3,153,465	3,198,994	45,529	1.4%
Local Use Tax	3,412,832	3,831,278	418,447	12.3%
<b>Totals</b>	<b>41,772,740</b>	<b>50,911,800</b>	<b>9,139,060</b>	<b>21.9%</b>

### ***Online Tax Revenue***

The outperformance in sales tax and HRST is partially due to the addition of online sales tax receipts. While difficult to quantify the precise impact that online sales are having on these revenues, staff reviewed the more than 3,400 vendors that have reported sales tax in Naperville since January 1, 2021. From that review, staff identified a number of recognizable e-commerce vendors that have no physical presence in Naperville and had not reported any sales tax prior to January. Staff conservatively estimates at least 7% of revenue growth over the past four months is from online sales tax. The Illinois Department of Revenue cautions against long-term forecasting using current data as vendors continue to struggle to accurately interpret the new laws.

### ***Auto Sales Tax Revenue***

At its July 20 meeting, Council raised the question of how auto inventory issues are impacting tax revenue in 2021. Historically, auto sales account for 25 to 30% of Naperville's sales tax base annually. Despite the widely reported inventory constraints, sales tax generated by new and used car dealers in the City remains very strong. For the sales months of January through April, auto sales produced \$3.85 million in state sales tax for the City. That is higher than the same period in each of the past three years by both dollar amount and percentage of total sales taxes received. Staff will continue to monitor this trend for any changes in the coming months.

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
New & Used Car Dealers (\$)	2,620,836	2,518,731	2,180,343	3,849,027
Total - All Categories (\$)	10,303,258	10,353,410	8,497,700	12,350,260
% of Total Sales Tax	25%	24%	26%	31%

### ***Locally Collected Revenues***

Taxable sales data for the four locally collected revenues continues to show growth in some areas and stability in others.

- Food and beverage receipts exceeded \$43 million for the second consecutive month. While the current report reflects a decline in sales, several tax returns have yet to be filed. Staff anticipates June sales will be in line with May.

- Local gas sales remained stable at 4.50 million gallons sold. Similar to food and beverage, several receipts are not yet accounted for.
- Real estate sales for the month of June totaled an impressive \$396 million dollars. This number is the result of continued strength in the residential market and several notable commercial sales, including the Nokia property, Market Meadows shopping center, and Glenmuir Apartments (95<sup>th</sup> St).
- Hotel and motel sales increased in the second quarter, which is consistent with expectations. Total sales recorded to date are \$8.58 million, which is an increase of more than 60% from the first quarter sales reported in March. Second quarter sales are more than double the same period in 2020 but remain 35% below 2019 sales of \$13.4 million.

### Monthly Taxable Sales for Locally Collected Revenues through June

Month	Food & Beverage	Hotel/Motel	Local Gas*	Real Estate
January	26.24	0.27	4.23	146.00
February	28.12	0.47	4.10	83.48
March	37.71	5.23	4.04	153.88
April	39.40	1.92	4.55	127.85
May	45.11	0.46	4.83	153.14
June	43.08	8.58	4.50	396.66
<b>YTD Totals</b>	<b>219.66</b>	<b>16.93</b>	<b>26.25</b>	<b>1,061.01</b>
<b>\$ in millions * gallons sold</b>				

### 2022 Economic Outlook

After a brief economic recession in 2020, U.S. economic activity rebounded fiercely in 2021. The Conference Board, one of the leading authorities on the global economy, forecasts growth in U.S. gross domestic product (GDP) at 6.6% in 2021. Growth is expected to slow but remain strong in 2022, with GDP forecasted to rise 3.8%. Rising GDP is attributable to full economic reopening, the infusion of federal stimulus dollars, a strong labor market, and high consumer confidence.

Strength in state and local revenues aligns with the rebound in U.S. economic growth. In nearly all categories, revenues have recovered to pre-pandemic levels, with some surpassing those levels and reaching new highs. The table below represents a preliminary revenue forecast for the budgetary funds that sustain City services or fund capital projects and experienced impacts from the pandemic. Each fund is assessed as being in one of three phases: recovery, normal, or growth. These forecasts are based on 2021 trends as staff is in the process of developing budget forecasts for 2022 revenues.

Budget Fund	Recovery	Normal	Growth
General Fund			X
Electric Utility Fund		X	
Water Utilities Fund		X	
Commuter Parking Fund	X		
Capital Projects Fund			X

Motor Fuel Tax Fund	X		
Road & Bridge Fund	X		
Downtown Parking Fund		X	
Food & Beverage Fund		X	
Library Fund		X	
Naper Settlement Fund		X	

While some revenues have yet to fully recover, the City's focus on revenue diversification so as not to over rely on any one funding source helps mitigate those issues. Only three of the funds listed above remain in a recovery status, and in each case, those are funds supported by a single, special purpose revenue stream. These issues are mitigated by the strength in other areas. For example, slow recovery in the Motor Fuel Tax (state gas tax) and Road & Bridge (local gas tax) funds are being offset by revenue gains in HRST, which could support capital projects typically allocated to those funds.

Keeping in mind the recent pandemic trends related to coronavirus variants, staff is approaching the 2022 budget cycle with cautious optimism. At this time, staff believes budgetary measures such as those taken to reallocate HRST to the General Fund in 2021 should not be necessary in the coming year. The 2022 budget will maintain appropriately conservative revenue forecasts in those areas where some uncertainty remains. That conservative approach has allowed the City to further solidify its financial position in 2020 and 2021 and will allow the City to focus on its commitment to continuous improvement in the delivery of necessary and cost-effective services in 2022 and beyond.

**FISCAL IMPACT:**

N/A