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Title: Receive the report on the CY2018 Budget, review options for the Property Tax Levy reduction, and provide direction on the storm sewer lining program. (Item 1 of 2)

Sponsors:

Indexes:

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Date	Ver.	Action By	Action	Result
2/20/2018	2	City Council	received	Pass

CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the report on the CY2018 Budget, review options for the Property Tax Levy reduction, and provide direction on the storm sewer lining program. (Item 1 of 2)

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

N/A

BACKGROUND:

Budget Overview

The City of Naperville's 2018 budget was approved at \$443.6 million, an overall increase of 0.5% from the \$441.5 million 2017 budget. This limited growth is evidence of the City's proactive annual commitment to reviewing expenditures, generating appropriate revenues and evaluating service delivery methods that provide high quality services to our community. Each year, City staff and City Council spend a significant amount of time exploring and planning how they envision the municipality operating both now and into the future. The City's mission statement, ends policies and financial principles are all guiding influences in the budget development process.

During the 2018 budget process, Council's decisions indicated that maintaining or lowering the total amount of property tax dollars collected was a significant priority. On December 19, 2017, Council directed staff to provide \$2.1 million in changes to further reduce the property tax levy to an amount less than last year's.

Approved Action Items

Below are the two actions that City Council has already taken to reduce the property tax levy. When the property tax levy was approved, the average homeowner's projected tax bill was \$848 for city services. Based upon interest rate savings from the City's bond sale and the action taken on the telecommunications and hotel/motel taxes actions, the average homeowner's projected tax bill is currently \$835 for city services.

Municipal Telecommunications Tax

At the February 6, 2018 City Council meeting, City Council increased the telecommunications tax from 5% to 6% effective July 1, 2018. The City will begin receiving monthly disbursements starting in October 2018 yielding an incremental \$220,000 for 2018.

Hotel/Motel Tax

At the February 6, 2018 City Council meeting, City Council increased the hotel and motel tax from 4.4% to 5.5% effective April 1, 2018. The City will begin receiving quarterly disbursements starting in April 2018 yielding an incremental \$280,000 for 2018.

DISCUSSION:

Items for Council Action

To reduce the average City portion of the 2018 property tax bill to be flat or a slight reduction from the \$810 in 2017, City Council would need to act on the two options below.

Home Rule Sales Tax

The City's current home rule sales tax rate is 0.5%. Each quarter point increment is valued at \$4.5 million for a full year of receipts. As the earliest date that this tax could be changed is July 1, the three-month delay in disbursements for a 0.25% increase would result in a \$1.1 million impact for 2018. Included in the agenda is the ordinance increasing this tax rate by 0.25%.

Maintenance/Capital Items Decrease

The directors identified either a one-year (or multi-year) moratorium on storm sewer lining as having the least impact on residents. The 2018 budget currently has \$600,000 earmarked for this work. Staff does not recommend the elimination of the storm sewer lining work due to the cost-effectiveness of the program. Additionally, staff cannot simply absorb this amount due to the high costs of winter operations already experienced in 2018, this action would decrease staff's flexibility in managing these expenses. Staff is requesting Council to provide direction on this option, and if Council comes to consensus on decreasing this expense, a budget amendment will be brought back at a future date.

Future Action Items

Although it would not impact 2018, an idea has been suggested to provide a 0.25% reduction to the citywide Food and Beverage Tax effective January 1, 2019. This would have a negative impact in 2019 with a \$1 million reduction in overall revenue collected. Based upon the current allocations of food and beverage receipts there would be a \$250,000 decrease in funding for public safety pensions, a \$200,000 decrease to social service grants, and a \$550,000 decrease to debt service allocations. Should Council come to consensus on this reduction, an ordinance amendment will be brought back at a future date.

Component	Action	Effective Date	Overall Impact	Impact on 2018 Target
APPROVED ACTION ITEMS				

Bond Sale	Lower interest rate than anticipated	Immediate	Reduces gap starting point by \$200,000	Reduces \$2.1M to \$1.9M
Municipal Telecommunications Tax	Increase from 5.0% to 6.0%	July 1, 2018 collection October 1, 2018 disbursement	\$220,000 increase for 2018; \$880,000 increase in 2019	Reduces \$1.9M to \$1.68M
Hotel/Motel Tax	Increase from 4.4% to 5.5%	April 1, 2018 collection and disbursement	\$280,000 increase for 2018; \$350,000 increase in 2019	Reduces \$1.68M to \$1.4M
ITEMS FOR COUNCIL ACTION				
Home Rule Sales Tax	Increase from 0.50% to 0.75%	July 1, 2018 collection October 1, 2018 disbursement	\$1.1 million increase for 2018; \$4.4 million increase in 2019	Reduces \$1.4M to \$300,000
Maintenance/Capital Items Decrease	Place one- or multi-year moratorium on storm sewer lining program	Immediate	\$500,000 decrease for 2018 \$500,000 decrease in 2019 and beyond	Reduces \$300,000 target to a \$200,000 decrease in the property tax levy
FUTURE ACTION ITEMS				
Food and Beverage Tax (SECA)	Decrease from 1.00% to 0.75%	January 1, 2019 collection and disbursement	No impact in 2018 \$1 million decrease in 2019	No 2018 impact

Upon final action from City Council regarding the home rule sales tax and the storm sewer lining program, staff will begin the preparation of the property tax abatement for Council consideration in March.

FISCAL IMPACT:

If all the above actions are approved, the City's property tax levy would be reduced from \$48.7 million to \$46.4 million. This would result in a slightly reduced property tax amount for the average homeowner.