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**CITY COUNCIL AGENDA ITEM**

**ACTION REQUESTED:**

Receive the October 2020 Financial Report

**DEPARTMENT:** Finance Department

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

**BOARD/COMMISSION REVIEW:**

N/A

**BACKGROUND:**

The City, region, and nation continue to experience the ongoing economic effects of the COVID-19 pandemic that began in mid-March. Staff continues to bring a financial report to the Council at its second meeting of each month to provide current data in order to make strategic financial decisions at the appropriate time.

**DISCUSSION:**

***New Information***

Ongoing developments continue to shape the pandemic’s financial impact on the City. Since the September 15 Council meeting, the following new events have occurred:

- **Will County mitigation measures lifted:** A COVID-19 positivity rate exceeding 8% for three consecutive days triggered additional state-mandated mitigation measures for Region 7 on August 26. On September 18, the region’s three-day rolling positivity rate dropped to 6.5% and the additional mitigation measures were lifted. Both the DuPage and Will County portions of the City are now operating under normal Phase 4 restrictions. As of October 8, both regions are maintaining a positivity rate of 5.6%.
- **Return to Learn update:** Naperville school districts 203 and 204 began the 2020-21 school year under a full-time e-learning model. Both districts have announced a transition to hybrid

learning models in late October and early November. These models will include limited in-class instruction combined with e-learning.

- **CARES Act update:** The City submitted official requests for reimbursement to DuPage and Will counties on September 28. The City's initial request to Will County was amended following program changes made in response to updated U.S. Treasury guidance. The requests included reimbursable expenses for public safety payroll costs in line with U.S. Treasury guidance totaling \$7,140,975. Preliminary response from both counties indicate the requested dollars meet the reimbursement criteria. Once approved, the City anticipates receiving payment within 30 days.

### ***Revenue update***

October marks seven months since the City began experiencing the financial impact of the pandemic. Constantly evolving mitigation efforts during the first four months of the pandemic resulted in significant fluctuations in state and local revenues over the past several months. Although we have seen three consecutive months of improvement in most revenues, consumer spending habits continue to change, and no clear trends have been established to predict the pace of recovery through the end of 2020 and into 2021.

### ***State revenues***

#### ***Sales tax***

Sales tax revenues improved significantly in October with state sales tax being 4.5% higher than original budget projections and 3.9% higher than October 2019. October revenues represent sales in July, the first full month Illinois was in Phase 4 of the Restore Illinois plan. While staff expected to see stabilization or modest improvement over September sales tax numbers, the October numbers far exceeded expectations.

Statewide sales tax declined 2.3% during this same period, leading staff to analyze year-over-year sales tax receipts for several other communities. Of note is that communities with a large auto dealer presence outperformed in October compared to other communities, signaling that pent-up demand coming out of the stay-at-home period resulted in strong auto sales in July. This trend may not repeat itself as inventory constraints could impact auto sales in future months. Additionally, this type of larger purchase is traditionally made as a one-time investment with lower recurring frequency.

#### ***Home rule sales tax***

Home rule sales tax (HRST) also outperformed expectations in October. HRST was 1.8% below October 2019 levels and 14.4% below original budget projections. HRST budget projections for the fourth quarter of 2020 were considerably higher because, at the time, it was believed the state would begin collecting HRST on online purchases in July 2020. Legislative changes delayed the implementation of that collection to January 1, 2021. Regardless, Naperville significantly outperformed statewide averages in HRST, which were down 8.8% year-over-year compared to Naperville's 1.8% decline.

#### ***Income tax***

October's state income tax revenue was 18.4% higher than original budget projections. This is the third consecutive month of better than expected revenues in this category. Revenues for the months following the delayed tax filing deadline have been strong. The Illinois Municipal League (IML)

forecast for CY2021 shows state income tax revenue shared through the Local Government Distributive Fund (LGDF) will remain under pressure and is estimated to decrease by 10% from CY2020.

*Local use tax*

The shift in consumer behavior to increased online shopping continues to have a positive impact on local use tax revenue. October revenue was 49.5% higher than original budget projections. As reported in prior months, changes to Illinois sales tax laws impacting online marketplaces will take effect on January 1, 2021. It is believed that while local use tax receipts will remain strong, the new law may shift some revenue from local use tax to sales tax, however the precise implications are unknown.

*State motor fuel tax*

State motor fuel tax (MFT) revenues, which include unbudgeted Transportation Renewal Funds (TRF), were 3.1% below budget projections in October. MFT revenue in October declined 8% from the prior month. While overall fuel consumption remains lower, this month-over-month decline may be a seasonal adjustment. The trend remains positive as October revenue increased by 8.4% over August revenue.

*October State Shared Taxes*

Revenue	Projection	Actual	Diff (\$)	Change (%)
Sales Tax	3,103,593	3,242,502	138,908	4.5
State Income Tax	1,384,851	1,640,313	255,461	18.4
Home Rule Sales Tax	1,419,141	1,215,292	(203,855)	-14.4
Motor Fuel Tax	487,820	472,529	(15,291)	-3.1
Local Use Tax	374,758	560,388	185,630	49.5
<b>Totals</b>	<b>6,770,177</b>	<b>7,131,024</b>	<b>360,853</b>	<b>5.3</b>

With the improvement in sales and income tax receipts over the past several months, actual revenues for the five major state collected revenue categories are now just 1.2% below budget projections through October. This number is a revision to the number reported in September, which inadvertently omitted income tax for that month.

Revenue	Projection (through Oct.)	Actual (through Oct.)	Diff (\$)
Sales Tax	29,348,970	27,350,741	(1,998,228)
State Income Tax	13,231,313	13,933,472	702,159
Home Rule Sales Tax	11,157,394	10,568,462	(588,933)
Motor Fuel Tax	4,592,094	4,586,335	(5,760)
Local Use Tax	3,813,702	4,938,476	1,124,773
<b>Totals</b>	<b>62,143,473</b>	<b>61,377,485</b>	<b>(765,988)</b>

*Local revenues*

In August, food and beverage sales continued to show recovery, up 5% from July. Sales for July were also revised upward from those reported last month due to delayed receipts. Food and beverage

sales are now just 3.5% below pre-pandemic sales in February.

Local gasoline sales numbers for July were revised downward and now show a decline from the prior month. August sales improved 21% from the revised July sales numbers and are now 19% below February sales.

Real estate sales in September declined 16% following a strong showing in August. This decline is attributable to seasonal variations in the market, with summer months typically seeing higher sales.

Property tax collections continue to be in line with prior years. Through the first week of October, the City has recorded approximately 95% of its budgeted property tax revenue.

Month	Food & Beverage	Hotel/Motel	Local Gas	Real Estate
January	34.76	0.85	5.38	66.11
February	34.61	0.93	5.27	67.11
March	23.19	0.48	4.17	89.48
April	16.10	7.38	2.39	71.07
May	22.40	0.06	3.39	107.41
June	27.39	0.12	4.40	135.77
July	31.74	2.90	3.52	149.88
August	33.39	0.19	4.26	153.78
September	-	-	-	128.98
<b>Totals</b>	<b>223.59</b>	<b>12.91</b>	<b>32.78</b>	<b>995.80</b>
<b>\$ in millions</b>				

**Risk Assessments**

Staff continues to review and update risk assessments for the various revenue categories. This month, staff has made several changes to the risk assessment. Commuter parking fees have been increased from Medium to High. Motor fuel taxes have been reduced from Medium to Low. Several other categories, such as Food and Beverage, continue to trend in a positive direction but remain uncertain as we enter cold weather months.

Revenue Source	Level of Risk	Reasoning
Hotel/Motel Taxes	High	Business and leisure travel continue to be limited by the pandemic.
Commuter Parking Fees	High	Daily commuter parking fee revenue down 95%. Commuter activity is not expected to recover soon.
Food & Beverage Taxes	Medium	Outdoor dining may be limited by the change of seasons.
State & Home Rule Sales Taxes	Medium	Trends remain unclear. A post-pandemic recession may continue to impact consumer spending.

Income Taxes	Medium	Statewide unemployment in August remained near 11%; IML is projecting a 10% decline in 2021.
State & Local Motor Fuel Taxes	Low	While travel remains lower than average, revenue has stabilized in recent months.

**Year-End Projection**

In the early stages of the pandemic, staff projected an \$18 million revenue shortfall in the General Fund. Staff developed that highly conservative projection having no historical basis for comparison. By July, actual revenue data was available to refine that projection down to a \$12 million revenue shortfall in the General Fund.

As revenues have recovered and additional monthly data has become available and analyzed, a clearer year-end estimate is available and was developed as part of the 2021 budget process. Recent improvements in sales tax, income tax, and local use tax have greatly reduced the projected revenue shortfall, and General Fund expenses are projected to end the year at \$124.60 million, below budget by \$655,000.

Based on the most recent data, staff projects the General Fund revenue shortfall, *excluding* CARES Act reimbursements, at \$5.3 million. Inclusion of the \$7.14 million in CARES Act reimbursements results in a 2020 General Fund revenue projection of \$127.16 million compared to the 2020 budget of \$125.33 million. Staff anticipates a final determination on CARES Act reimbursement within the next ten days and remains confident the City will receive its full allotment from both counties.

While 2020 year-end revenue projections are far better than the estimates made at the outset of the pandemic, staff is maintaining a very conservative outlook for 2021 as the duration of the pandemic, pace of economic recovery, and potential for any future federal aid packages remains unclear. The outcome of 2020 and possible impacts for 2021 will be detailed in the upcoming budget workshop presentations.

**Next Steps**

The 2021 budget proposal is in the final stages of review and will be released to the public on October 16. Council review of the budget will begin with the first of three scheduled workshops on October 26.

**FISCAL IMPACT:**

N/A