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CITY COUNCIL AGENDA ITEM

ACTION REQUESTED:

Receive the November 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 in order to make strategic financial decisions.

DISCUSSION:

Considering the ongoing budget workshops, the November report is condensed to an update of monthly revenues and will not include a formal presentation.

New Information

Ongoing developments continue to shape the pandemic's financial impact on the City. Since the October 20 Council meeting, the following new events occurred:

- **Additional DuPage and Will County mitigation measures enacted:** Additional restrictions on indoor dining and bar service and gathering limits have been in place since October 23. Naperville's health regions must see a positivity rate average less than or equal to 6.5% over a three-day period before the region can return to less restrictive mitigations. A positivity rate average greater than or equal to 8% after 14 days of mitigations can result in additional mitigations being enacted. On November 11, a second tier of mitigations was enacted that

further restricted dining and bar service and gathering limits in both regions due to a continued climb in the positivity rate. In addition, on November 11, the Illinois Department of Public Health recommended Illinoisans stay at home for the next three weeks as much as possible except to obtain essential items and services or perform work that must be done out of the home.

- **CARES Act funds update:** The City has received its full requested allocation from DuPage and Will counties totaling \$7,027,229. In addition, Will County has allocated \$157,182 to the Naperville Fire Protection District (NFPD). Those funds will be applied for as a pass-through to the City, as the Naperville Fire Department is the service provider to the district. NFPD applied for the funds on November 10 and received preliminary approval for all expenses submitted, which totaled the full allocation of \$157,182.

Revenues Update

November marks eight 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 four consecutive months of improvement in most revenues, consumer spending habits continue to change, and we continue to see no clear trends as to the pace of recovery through the end of the year and into 2021.

State revenues

Sales tax

Following October's stronger than anticipated sales tax revenue, November sales tax revenues pulled back slightly, yet continued to show strong recovery. November revenues represent sales in August, the second full month Illinois was in Phase 4 of the Restore Illinois plan. Compared to the same period in 2019, sales tax declined just 1.3%. When compared to original budget projections for 2020, the decline is 1.9%. Naperville's sales tax revenue continues to outperform the statewide average, which showed a decline of 4.9% during this same period in 2019.

Home rule sales tax

Home rule sales tax (HRST) also showed signs of continued recovery. HRST was 5.3% below November 2019 levels and 19.2% below original budget projections. As noted last month, 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 which we now know will not happen until January 1, 2021. Naperville also outperformed statewide averages in HRST, which were down 11.7% year-over-year compared to Naperville's 5.3% decline.

Income tax

State income tax revenue for November continued to outperform with actual revenue being 13.6% higher than original budget projections. Revenues for the months following the delayed tax filing deadline have been strong. The Illinois Municipal League (IML) reported in November that, through the passage of Public Act 101-0636, municipalities began receiving their full share of the Local Government Distributive Fund (LGDF) beginning in July. This explains the outperformance we have seen in recent months, as previous estimates had municipalities receiving only 95% of LGDF.

IML has also revised its forecast for CY2021 based on this new information; however, its revised estimate was published before the constitutional amendment on state income tax was defeated during the November 3 election. Staff maintains its current 2021 forecast to account for any changes that may occur at the state level in response to uncertainty around the state's budget.

Local use tax

Local use tax revenue continued to be very strong for November. Actual revenue came in 44% higher than original budget projections. This continued outperformance is the result of increased online shopping and improved tax collection from online retailers. 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, and the precise implications are still not known. Staff has factored this into our home rule sales tax projection and maintains IML's revenue projection for local use tax.

State motor fuel tax

State motor fuel tax (MFT) revenues were 21% below budget projections in November. This decrease was offset by the receipt of an annual MFT supplement distributed to high-growth communities in November in the amount of \$235,188. That supplemental allotment is budgeted in the MFT Fund; however, actual distribution is much higher than the \$125,000 estimate for 2020. Year to date, a total of \$340,000 has been received.

November State Shared Taxes

Revenue	Projection	Actual	Diff (\$)	Change (%)
Sales Tax	3,235,283	3,173,625	(61,661)	-1.9
State Income Tax	975,955	1,108,373	132,418	13.6
Home Rule Sales Tax	1,467,981	1,186,103	(281,879)	-19.2
Motor Fuel Tax	590,572	466,254	(124,318)	-21.1
Local Use Tax	370,371	533,622	162,921	43.9
Totals	6,640,496	6,640,496	(172,519)	-2.6

Stronger than expected revenue in sales, income, and use tax categories over the past several months have brought actual revenues closer to budget projections; however, the five major state collected revenue categories remain 1.4% below budget projections through November.

Revenue	Projection (through Nov.)	Actual (through Nov.)	Diff (\$)
Sales Tax	32,584,256	30,524,366	(2,059,889)
State Income Tax	14,207,268	15,041,845	834,577
Home Rule Sales Tax	12,625,376	11,754,565	(870,812)
Motor Fuel Tax	5,182,666	5,052,588	(130,078)
Local Use Tax	4,184,403	5,472,098	1,287,694
Totals	68,783,969	68,783,969	(938,508)

Local revenues

September food and beverage sales experienced their first monthly decline since April, down 13% from August. During this reporting period, Will County mitigation measures that limited indoor dining were in place for 18 days. Staff continues to monitor this trend very closely as both counties are now under enhanced mitigation measures that impact indoor dining.

Local gasoline sales for September declined by 7%, showing that overall vehicular travel remains lower than pre-pandemic periods.

Third quarter hotel/motel sales numbers show an improvement from the second quarter of 42%. This is positive news; however, sales remained 44% lower than in the first quarter. Staff expects this category to remain under pressure well into 2021.

Real estate transfer tax data shows another very strong month in October with sales 49% higher than the prior month. October represented the top sales month in all of 2020 thus far. An increase in commercial value for October contributed to the strong numbers.

Property tax collections continue to be in line with prior years. Through early November, the City has recorded just over 97% of its budgeted property tax revenue with several smaller distributions remaining in November and December.

Month	Food & Beverage	Hotel/Motel	Local Gas	Real Estate
January	34.76	0.85	5.38	66.11
February	34.64	0.93	5.27	67.11
March	23.22	0.48	4.17	89.48
April	16.13	7.38	2.48	71.07
May	22.43	0.06	3.39	107.41
June	27.41	0.12	4.40	135.77
July	31.79	2.90	3.43	149.88
August	34.33	0.19	4.26	153.78
September	29.72	0.72	3.95	128.98
October	-	4.13	-	191.77
Totals	254.44	17.76	36.73	1,161.35
\$ in millions				

Risk Assessments

Staff continues to review and update risk assessments for the various revenue categories. This month, the risk level associated with state income tax is reduced to low. The return of Naperville's full share of LGDF is a positive step forward; however, the uncertainty around the state budget leaves some risk on the table. The current state of the pandemic, including rising cases and additional mitigation measures being put into place, is reason to monitor several categories very closely as we move into the winter 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	Additional mitigation efforts impacting restaurant/bar industries in effect in DuPage and Will counties.

State & Home Rule Sales Taxes	Medium	Trends remain unclear. A post-pandemic recession may continue to impact consumer spending.
Income Taxes	Low	Revenue has stabilized with distribution of the City's full share of LGDF by the state.
State & Local Motor Fuel Taxes	Low	While travel remains lower than average, revenue has stabilized in recent months.

Next Steps

The third and final budget workshop is scheduled for Monday, November 23, followed by presentation of the budget for adoption on December 1. Staff will continue presenting monthly financial reports to Council into 2021 as it is clear the pandemic will continue to have economic impacts beyond 2020.

FISCAL IMPACT:

N/A