



Legislation Text

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**CITY COUNCIL AGENDA ITEM**

**ACTION REQUESTED:**

Receive the December 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. To provide Council with current data to make strategic financial decisions at the appropriate time, staff continues to bring a financial report to the Council at its second meeting of each month.

**DISCUSSION:**

***New Information***

Ongoing developments continue to shape the pandemic's financial impact on the City. Since the November 17 Council meeting, the following new events occurred:

- **Additional statewide mitigation measures enacted:** On November 20, Governor Pritzker imposed Tier 3 mitigations on every county in the state in response to surging COVID-19 cases. These new mitigations included restrictions on indoor dining, capacity limits at retail and service establishments, and a pause on group recreational activities. Employers were also encouraged to move employees to remote work situations where possible. For Tier 3 mitigation measures to be relaxed, a public health region must experience less than a 12% test positivity rate (7-day rolling average) for three consecutive days, greater than 20% percent available intensive care unit and medical/surgical bed availability (3-day rolling average) for three consecutive days, and a decline in the number of COVID-19 patients in the hospital (7-day rolling average) in seven out of the last 10 days. Neither DuPage County nor Will County has met these metrics as of December 11.
- **2021 annual budget approved:** On December 1, the City Council approved the 2021 Annual Operating Budget and Capital Improvement Program at \$502.4 million. Revenue projections for 2021 assumed that the impacts of the pandemic continue well into the new year. As such, the 2021 budget makes use of \$6.25 million in Home Rule Sales Tax to support operating expenses in the General Fund. This reallocation of funds was made possible by the Council's flexible approach in responding to the fiscal impacts of the pandemic.

***Revenues Update***

December marks nine 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. Since revenue declines bottomed in July, we have seen a steady recovery in most revenue streams. While many revenues have stabilized, new mitigation measures raise concerns as to whether the progress that we've seen can be maintained in the coming months.

**State revenues**

*Sales tax*

December sales tax revenues continued to establish a trend in the recovery of consumer spending once the state moved into Phase 4 of Restore Illinois. December revenues represent September sales. Compared to the original 2020 budget projections, December sales tax revenue increased by 0.8%. Compared to the same period in 2019, sales tax increased by 3.8%. Naperville's sales tax revenue continues to outperform the statewide average, which increased by only 1.0% from this same period in 2019.

*Home rule sales tax*

Home rule sales tax (HRST) has not recovered to the same extent as state sales tax as HRST is not applied to some consumer staples, such as groceries and healthcare items. HRST was 3.8% below November 2019 levels and 18.7% below the original 2020 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. This disparity has been negated by the significant increase in local use tax receipts.

Naperville continued to outperform statewide averages in HRST, which were down 6.1% year-over-year compared to Naperville's 3.8% decline.

*State motor fuel tax*

State motor fuel tax (MFT) disbursements were 16% below budget projections in December. This revenue stream continues to be constrained by the reduction in travel across the state due to the continued trend of employees working from home and schools conducting remote learning.

*Income and local use tax\**

As of December 11, the state had not disbursed income tax or local use tax for the month of December. Staff anticipates that disbursement will occur the week of December 14.

**December State Shared Taxes**

| Revenue             | Projection       | Actual           | Diff (\$)          | Change (%)   |
|---------------------|------------------|------------------|--------------------|--------------|
| Sales Tax           | 2,958,582        | 2,981,294        | 22,706             | 0.8          |
| State Income Tax*   | 873,573          | -                | (873,573)          | -            |
| Home Rule Sales Tax | 1,381,221        | 1,123,458        | (257,766)          | -18.7        |
| Motor Fuel Tax      | 563,094          | 471,054          | (92,040)           | -16.3        |
| Local Use Tax*      | 415,597          | -                | (415,597)          | -            |
| <b>Totals</b>       | <b>6,192,077</b> | <b>4,575,806</b> | <b>(1,616,270)</b> | <b>-26.1</b> |

Current year to date revenue in the five major state shared categories is \$2.6 million, or 3.4%, below original budget projections for the year. Based on trends seen over the past three months, staff anticipates that income tax and local use tax will add an additional \$1.5 million in revenue to the totals below once those disbursements are received.

| Revenue             | Projection (through Dec.) | Actual (through Dec.) | Diff (\$)          |
|---------------------|---------------------------|-----------------------|--------------------|
| Sales Tax           | 35,542,844                | 33,505,660            | (2,037,183)        |
| State Income Tax*   | 15,080,841                | 15,041,845            | (38,996)           |
| Home Rule Sales Tax | 14,006,600                | 12,878,023            | (1,128,578)        |
| Motor Fuel Tax      | 5,745,760                 | 5,523,643             | (222,118)          |
| Local Use Tax*      | 4,600,000                 | 5,472,098             | 872,097            |
| <b>Totals</b>       | <b>74,976,045</b>         | <b>72,421,268</b>     | <b>(2,554,777)</b> |

**Local revenues**

October food and beverage sales recorded to date are 43% lower than September sales; however, much of this decline is attributable to a recent change in internal processes which aimed to simplify local tax filings for businesses and move them online. That process change has caused a temporary disruption in available data. To date, only 170 of the approximate 300 monthly receipts have been recorded. Staff does expect some decline in October sales once all receipts are recorded due to the limitations on indoor dining that took effect on October 23. Statewide mitigation measures impacting indoor dining and the seasonal limitations on outdoor dining are expected to impact food and beverage sales in the coming months.

Last month, staff reported that local gasoline sales for September declined by 7%; however, late tax filings from the previous month have now been recorded and show that September sales actually improved by 4.5% over August sales. October sales recorded through the first week of December show a decline of 30% from September.

Hotel/motel taxes are collected quarterly. Third quarter sales were reported in the November report to Council; however, delayed filings resulted in revised numbers for September, adding \$870,000 in taxable sales for that month. Regardless, third quarter revenue remains well below pre-pandemic levels.

Real estate transfer tax data shows another strong month in November. Although sales decreased 38% from October, that month represented a high point for the year and sales typically decline in fall and winter months.

Property tax collections continue to be in line with prior years. Through early December, the City has recorded more than 99% of its budgeted property tax revenue with a final distribution scheduled for the third week in 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  | 34.38         | 0.19         | 4.26         | 153.78          |
| September   | 30.17         | 1.59         | 4.45         | 128.98          |
| October   | 17.21*        | 4.13         | 3.12         | 191.77          |
| November  | -             | -            |              | 118.89          |
| <b>Totals</b>   | <b>272.16</b> | <b>18.64</b> | <b>40.34</b> | <b>1,280.24</b> |
| <b>\$ in millions</b>                                     |               |              |              |                 |
| *Partial recording due to change in submission procedures |               |              |              |                 |

**Risk Assessments**

Staff continues to review and update risk assessments for the various revenue categories. This month, food and beverage taxes are moved back to a high level of risk. The restriction on indoor dining combined with the seasonal impediments to outdoor dining is likely to impact food and beverage tax revenue for November and into the foreseeable future.

| 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          | High          | Additional statewide mitigation efforts restrict indoor service.  |
| State & Home Rule Sales Taxes  | Medium        | State and home rule sales taxes have stabilized, but the “second wave” of the pandemic may impact revenues in future months as receipts are delayed three months. |
| 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**

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. Staff will closely monitor revenues for any significant deviation from the projections included in the 2021 budget. Should additional response strategies need to be considered, staff would bring that discussion to Council through the monthly report.

Staff will present a final overview of the 2020 budget at the January 19 City Council meeting.

**FISCAL IMPACT:**

N/A