



## Legislation Text

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File #: 23-1270, Version: 1

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### **CITY COUNCIL AGENDA ITEM**

#### **ACTION REQUESTED:**

Waive the first reading and pass the ordinance amending Section 3-1-9 of the Naperville Municipal Code modifying the allocation of food and beverage taxes to fund Naper Settlement and mental health initiatives (requires six positive votes)

**DEPARTMENT:** Finance Department

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

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

N/A

#### **BACKGROUND:**

In 2004, the City used its home rule authority to establish a 1.0% Food & Beverage Tax that is applied to the purchase of prepared food and beverages sold in restaurants and other establishments throughout the City. The City established this tax to fund what is now known as the Special Events and Community Arts (SECA) Grant Program. The SECA Grant Program provides funding for City services to support social and artistic special events, as well as provide supplemental funding to entities that provide cultural experiences for residents and visitors of Naperville.

The Municipal Code has been amended several times over the past two decades to address various issues related to the administration of the tax, as well as the allocation of the funds collected under the tax. A brief history of those revisions is as follows:

- April 2004 - Established a citywide Food & Beverage Tax of 1.0% (Ord. 04-051) and established the Culture Fund (Ord. 04-056)
- June 2004 - Text amendments including the application of tax to community events and created various exemptions including mobile food vending (Ord. 04-103)
- October 2008 - Amended Section 9 of Chapter 1 of Title 3 to provide for the creation of a Downtown Food and Beverage Tax (Ord. 08-197)
- May 2009 - Additional text amendments related to community events, including the application of late fees (Ord. 09-061)
- March 2010 - Authorized temporary allocation of 25% of Food & Beverage Tax revenue to the General Fund in response to declining revenues during the Great Recession (Ord. 10-028)
- April 2013 - Revised the allocation of Food & Beverage Tax revenue: 75% Culture Fund (up to \$2.0 million with 2% annual increase), 25% police and fire pension funds (over and above

required contributions), up to \$500,000 in Social Service Grants, and remainder to pay down debt service; removed General Fund allocation (Ord. 13-029)

- October 2015 - Reduces annual allocation to Culture Fund to \$1.9 million and eliminated automatic annual increases (Ord. 15-170)
- October 2016 - Eliminated Culture Fund; added recovery of City costs related to collection/administration of the tax as an allowable use; replaced references to Culture Fund with SECA Grant Program; and added that pension allocations may be used to meet or exceed required funding obligations (Ord. 16-166)
- May 2018 - Reestablished annual increase to SECA Grant Program beginning in 2019 and text amendments related to community festivals (Ord. 18-046)
- August 2020 - Added language allowing for flexibility in allocating funds in 2020 and 2021 (Ord. 20-089)

Over time, revenue generated by the citywide Food and Beverage Tax has grown to exceed the amounts necessary to fund the SECA Grant Program and the City Council has distributed that additional revenue to other sources. The City Council most recently amended the citywide Food and Beverage Tax ordinance to define the distribution of revenue in the order that follows:

- **Administrative Expenses** - Revenues from the tax are first allocated to cover administrative costs associated with collection of the tax.
- **Special Events and Community Arts (SECA) Grant Program** - After administrative expenses are applied, the first 75% of tax revenues are earmarked for SECA with an annual cap of \$1.9 million (2019), increasing the cap by either a flat 2% rate or the Chicago-Naperville -Elgin, Ill.-Ind.-Wis. Consumer Price Index (CPI), whichever is lower.
- **Public Safety Pension Funds** - The next 25% of revenues collected are split equally for payments into the Police Pension Fund and the Naperville Firefighters' Pension Fund to meet or exceed required funding obligations.
- **Social Services Grant Program** - The Social Services Grant Program receives additional revenues following fulfillment of the first three obligations with a \$500,000 maximum.
- **Debt Service Fund** - Any remaining revenues are used for payments on the City's long-term debt obligations.

### **DISCUSSION:**

The Food and Beverage Tax has traditionally been one of the City's most consistent and stable revenue sources. While revenue declined temporarily during the height of the pandemic, it has since rebounded and is now exceeding pre-pandemic levels. For 2024, the tax is estimated to generate \$6.3 million.

During the annual budget process, staff analyzes financial needs across all departments and budgetary funds of the City. When needs are identified, staff evaluates funding sources that not only align with the need but also have the capacity to support that need. In 2024, staff identified two emerging needs. In both cases, the Food and Beverage Tax represented an appropriate and capable funding source.

### *Diversification of Naper Settlement Funding*

The first area of consideration is the diversification of revenues supporting the investment in Naper Settlement. In recent years the City has supported the expansion of the museum campus which included three new buildings on the property. However, that investment is not a one-time expense. Maintaining new buildings and establishing programs that go with them has resulted in larger operating budgets. Traditionally, Naper Settlement's budget is almost entirely funded through property taxes which has resulted in an 86% increase in the Naper Settlement's portion of the levy since 2021.

To maintain the required level of investment in Naper Settlement while maintaining a low property tax rate, additional revenue sources need to be identified. Staff believes the Food and Beverage Fund is a logical revenue source for Naper Settlement as it aligns with the mission of providing special events and cultural amenities to the community.

Staff is proposing that up to 25% of the taxes collected pursuant to the Food and Beverage Tax, up to an initial maximum of \$1,000,000 annually, be contributed to the Naper Settlement Fund. This contribution will increase annually beginning in 2025 at the lesser of a 2% flat rate, or the Chicago-Naperville-Elgin, Ill., Ind., Wis. Consumer Price Index rate, which is in line with SECA.

#### *Investment in Mental Health Resources*

The second area of consideration is investment in the mental health needs of the community. Over the last several years, the City has committed more resources to mental health, including additional funding to train first responders, additional social workers in the Police Department, and the approval of six firefighter-paramedics to staff the Community Advocate Response Team. While the steps the City has taken to invest in mental health are positive, they do not address the full scope of this community need.

Many of those needs do not align with core services provided by City departments. Some services, such as counseling and crisis intervention, are better provided by community partners operating in the healthcare and social services industries. As a result, staff is proposing an increase of \$250,000 to the current Social Service Grant Program. The additional funding is recommended to be direct support for mental health service providers and would further address the growing mental health needs in our community.

#### *2024 Food and Beverage Fund*

While these changes do reallocate dollars within the Food and Beverage Fund, they do not change the manner or level at which the SECA Grant Program or public safety pensions are funded by Food and Beverage Tax. The additional funds being allocated to social service grants and Naper Settlement will be drawn from the current debt service transfer amount. That change has no negative impact on the City's ability to pay down its existing debt considering the significant reduction in debt that has been achieved over the past eight years.

The proposed 2024 allocation of dollars within the Food and Beverage Fund is broken down below:

- Maintain SECA Grant Program funding at \$2.06 million, with annual increases as currently defined by the Municipal Code
- Maintain public safety pension contributions at 25% of revenue collected, which in 2024 is estimated at \$788,000, per fund
- Increase Social Service Grant Program funding from \$500,000 to \$750,000, with the additional

- funding reserved for mental health providers
- Add support for Naper Settlement at \$1.0 million, with annual increase in line with SECA Grant Program
- All remaining amounts are transferred to pay debt service, which is estimated at \$897,000 for 2024

**FISCAL IMPACT:**

This amendment changes the current allocation of Food and Beverage Tax revenue. The amendment does not impact the tax rate or any other component of the Food and Beverage Tax code. This amendment ensures the level of investment in these two purposes remains high while simultaneously lowering the Naper Settlement portion of property tax levy.