

**VILLAGE OF DOWNERS GROVE
REPORT FOR THE VILLAGE COUNCIL MEETING
FEBRUARY 20, 2006 AGENDA**

SUBJECT:	TYPE:	SUBMITTED BY:
Ordinance – Rededication of Home Rule Sales Tax	Resolution ✓ Ordinance Motion Discussion Only	Cara Pavlicek Village Manager

SYNOPSIS

An ordinance has been prepared to rededicate the Home Rule Sales Tax with revenues directed into the Capital Improvement Fund budget for infrastructure.

FISCAL IMPACT

The FY06-07 recommended budget document reflects this proposal by shifting Home Rule Sales tax revenues into the Capital Fund (and shifting Utility Tax revenues into the General Fund from the Capital Fund.) The result, is an overall reduction of General Fund revenue for day to day operations of \$2,426,067 and an increase in funding for Capital needs of \$2,368,567. In future fiscal years, the total annual Home Rules Sales tax dollars that are projected to be available for capital would be approximately \$4.4 million.

UPDATE & RECOMMENDATION

This item was discussed at the February 14, 2006 Village Council Workshop. It is recommended the Council continue this item until February 28, 2006, at which time a public hearing has been noticed. The ordinance would subsequently be presented for approval on March 7, 2006.

BACKGROUND

On January 10, 2006, the Mayor and Village Council reviewed the financial impact of a rededication of the home rule sales tax in the Village. The Home Rule Sales Tax is a ½ percent tax that is charged, in addition to the 6.75% standard Illinois sales tax, and results in a total sales tax of 7.25% for applicable items (the Home Rule Sales Tax does not apply to the purchase of automobiles, nor certain “necessity items” such as groceries, pharmaceuticals, or medical equipment, meaning that is does not disproportionately burden those on low or fixed incomes.) Total sales tax collected on General Merchandise is distributed as follows:

State portion	5.00%
Village portion	1.00%
County portion	0.25%
County Water Commission (CWC)	0.25%
Regional Transportation Authority (RTA) portion	0.25%
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<i>Total Sales Tax by State Regulation for General Merchandise</i>	6.75%

Village Home Rule portion	0.50%
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<i>Total Sales Tax on General Merchandise (not applicable to vehicles & qualifying food/drug and medical appliances)</i>	7.25%

In March 2003, the Village Council adopted a Home Rule Sales tax at 0.50%, with a three year sunset date that eliminates the tax on April 1, 2006, unless there is direction from the Village Council to extend it prior to the sunset date.

Sales tax is generally considered one of the most appropriate forms of tax revenues for Downers Grove residents as it is estimated that residents pay approximately 25% of all sales tax revenues while outside sources pay as much as 75%. This allocation is based upon an estimate that considers the Village population of 49,000 and an estimated daytime population of 95,000. Additionally, the Village is a regional shopping destination for a number of goods and services such as electronics, furniture and restaurants available in shopping districts located at Butterfield and Finley Roads, Ogden Avenue, 75th Street, 63rd Street and Downtown. Staff has estimated the Village's retail trade surplus at 1.4 (anything above 1 is considered a strong surplus). When individuals shop and work in Downers Grove who are not property owners (and therefore, do not pay property taxes) they impact the cost of public services in a number of areas including but not limited to streets, police, fire and emergency medical services. Therefore, a sales tax is one of the few tools available to the Village to recover revenue for the increased cost of local government services that result from being a part of a metropolitan area.

Extensive discussion has occurred over the past several months regarding the continued viability of the home rule sales tax to fund Village services. At the time the ½ cent Home Rule Sales Tax was adopted, the local and national economy was in a significant downturn. Home Rule Sales Tax was a critical source of revenue that mitigated staff and services reductions in the Village. In developing the FY 06-07 budget, which is scheduled to be presented to the Village Council on February 25, 2006, Village staff is confident that the Home Rule Sales Tax is no longer essential to help support General Fund operations as a result of a healthy local economy that has rebounded in combination with continued improvements to operational efficiency. Loss of \$4.4 million in General Fund Revenues however, will not be without any impact. The Village does need to make a long-term financial commitment to the maintenance and improvement of capital infrastructure in the Village. Capital improvements to public infrastructure such as streets, storm sewers, public right of way, equipment and municipal facilities are provided for in the Capital Improvements Fund which primary source of revenue is a portion of utility tax revenues that generate approximately \$1.5 million annually in the Fund. The Home Rule Sales Tax should be considered as a future source of revenue in the Capital Improvements Fund for several reasons including:

- Productivity: Each ½ cent of a Home Rule Sales Tax generates approximately \$4.4 million annually.
- Progressiveness: A Home Rule Sales Tax does not apply to the purchase of automobiles, nor certain "necessity items" such as groceries, pharmaceuticals, or medical equipment, meaning that it does not disproportionately burden those on low or fixed incomes.
- Non-Residents Pay: Since the Village is a major retail destination, particularly for electronics and furniture, a substantial portion of Home Rule Sales Tax revenue, perhaps as much as 75%, is generated from non-residents who travel through the Village and consume Village services (infrastructure & public safety).

- Efficiency: The tax is collected and distributed by the State and therefore Village staff has minimal administrative cost.
- Dependable: Monthly revenues for the home rule sales tax have remained more stable and predictable than the Village's 1% local share sales tax that applies to all purchases. However, any sales tax revenue has a degree of volatility therefore, from a long range planning standpoint it is generally preferable to tie sales tax revenue streams to expenditures such as capital items than can be budgeted at varying levels from year to year versus operating expenditures that have a need to be more stable as they support day to day services.

In reviewing a preliminary list of all outstanding capital projects that need to be presented to the Council as a part of future budgets, it is clear that the capital needs of this community exceed available resources. Each year the Village falls further behind in equipment and infrastructure replacement and maintenance.

Home Rule Tax

ORDINANCE NO. _____

AN ORDINANCE AMENDING HOME RULE SALES TAX

BE IT ORDAINED by the Village Council of the Village of Downers Grove in DuPage County, Illinois, as follows: (Additions are indicated by **shading/underline**; deletions by ~~strikeout~~):

Section 1. That Section 21.101. is hereby amended to read as follows:

21.101. Home Rule Municipal Service Occupation Tax - Imposed; rate.

(a) A tax is hereby imposed upon all persons engaged in the Village of Downers Grove in the business of making sales of service, at the rate of one-half of one percent of the selling price of all tangible personal property transferred by such serviceman, either in the form of tangible personal property or in the form of real estate, as an incident to a sale of service. Such "Home Rule Municipal Service Occupation Tax" shall not be applicable to the sales of food for human consumption which is to be consumed off the premises where it is sold (other than alcoholic beverages, soft drinks and food which has been prepared for immediate consumption) and prescription and non-prescription medicines, drugs, medical appliances and insulin, urine testing materials, and syringes and needles used by diabetics.

The imposition of this home rule tax is pursuant to the provisions of Section 8-11-5 of the 'Illinois Municipal Code' (65 ILCS 5/8-11-5, as amended).

(b) The tax hereby imposed, and all civil penalties that may be assessed as an incident thereto, shall be collected and enforced by the Department of Revenue of the State of Illinois. The Department of Revenue shall have full power to administer and enforce the provisions of this Section.

Section 2. That Section 21.201. is hereby amended to read as follows:

21.201. Home Rule Municipal Retailers Occupation Tax.

(a) A tax is hereby imposed upon all persons engaged in the business of selling tangible personal property, other than an item of tangible personal property titled or registered, with an agency of the State of Illinois at retail in the Village of Downers Grove, at the rate of one-half of one percent of the gross receipts from such sales made in the course of such business while this ordinance is in effect. Such "Home Rule Municipal Retailers Occupation Tax" shall not be applicable to the sales of food for human consumption which is to be consumed off the premises where it is sold (other than alcoholic beverages, soft drinks and food which has been prepared for immediate consumption) and prescription and non-prescription medicines, drugs, medical appliances and insulin, urine testing materials, and syringes and needles used by diabetics.

The imposition of this home rule tax is pursuant to the provisions of Section 8-11-1 of the 'Illinois Municipal Code' (65 ILCS 5/8-11-1, as amended).

(b) The tax hereby imposed, and all civil penalties that may be assessed as an incident thereto, shall be collected and enforced by the Department of Revenue of the State of Illinois. The Department of Revenue shall have full power to administer and enforce the provisions of this Section.

~~**Section #3.** That the Home Rule Municipal Service Occupation Tax and Home Rule Retailers~~

Home Rule Tax

~~Occupation Tax hereby imposed shall expire and become null and void three (3) years from the passage of this ordinance.~~

Section #3. That the Home Rule Sales Tax collected shall be deposited in the Capital Improvement Fund.

Section #4. That all ordinances or parts of ordinances in conflict with the provisions of this ordinance are hereby repealed.

Section #5. That this ordinance shall be in full force and effect from and after its passage and publication in the manner provided by law.

Mayor

Passed:

Published:

Attest: _____

Village Clerk