



MANAGER'S MEMO ITEM

ITEM: FY2006-07 Budget Discussion: Home Rule Sales Tax Strategy
WORKSHOP DATE: January 5, 2006
PREPARED BY: Cara Pavlicek, Village Manager
Michael Baker, Assistant Village Manager
BID AMOUNT: N/A **ACCOUNT:** N/A
BUDGET AMOUNT: N/A

PURPOSE: To review with the Village Council the financial impact of a rededication of the home rule sales tax

Background

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. The Home Rule Sales Tax is a ½ percent tax that is charged, in addition to the 6.75% standard sales tax resulting 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 it does not disproportionately burden those on low or fixed incomes.) In Fiscal Year 2004-05, the Home Rule Sales Tax generated over \$4.3 million in General Fund Revenue. In regards to the standard 6.75% sales tax, the Village receives 1% of those revenues in the General Fund. In FY 04-05, the Village received \$12.6 million from its 1% portion of the standard sales tax in the General Fund. Combined, the 1.5% sales taxes receipts account for 43.5% of total General Fund revenues.

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.

Home Rule Sales Tax Options

The Finance & Administrative Committee has reviewed with staff options that should be considered by the Village Council in regards to Home Rule Sales Tax. These include:

- 1) *Take no action and thereby allow the home rule sales tax to sunset.*
Impact: General Fund revenues would be reduced annually by an estimated \$4.4 million
- 2) *Rededicate the existing 0.50% Home Rule Sales Tax and direct the revenues to the Capital Improvement Fund.*
Impact: General Fund revenues would be reduced annually by an estimated \$4.4 million and Capital Improvement Fund revenues would be increased by \$4.4 million. A synopsis of the Capital Improvement Fund is detailed below and identifies both a current lack of adequate revenues to fund

the replacement and maintenance of existing infrastructure in the Village. It should be noted that the Capital Improvement Fund is currently supported by approximately \$1.5 million in utility tax revenues that may be a more appropriate General Fund revenue stream should Council identify Home Rule Sales Tax as a long term source of revenue for infrastructure replacement and maintenance.

- 3) *Increase the home rule sales tax to 1.00% and direct the revenues to the Capital Improvement Fund.* Impact: General Fund revenues would be reduced annually by an estimated \$4.4 million and Capital Improvement Fund revenues would be increased by \$8.8 million. As stated earlier, a synopsis of the Capital Improvement Fund is detailed below and identifies both a current lack of adequate revenues to fund the replacement and maintenance of existing infrastructure in the Village. When rough estimates are included for municipal facility improvements that are currently being considered, an increase in the Home Rule Sales tax should be considered as opposed to the traditional use of property tax dollars. This option again notes that the Capital Improvement Fund is currently supported by approximately \$1.5 million in utility tax revenues that may be a more appropriate General Fund revenue stream should Council identify Home Rule Sales Tax as a long term source of revenue for infrastructure replacement and maintenance.

Capital Improvement Fund and Home Rule Sales Tax

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.

Staff is currently reviewing a preliminary list of all outstanding capital projects in order to present the recommended FY 06-07 budget to Council. Annually, capital needs exceed available resources and the Village falls further behind in equipment and infrastructure replacement and maintenance. The following chart is a synopsis of recent capital expenditures in the Village and the total capital needs

that have been preliminarily identified for each of the next five fiscal years with municipal facility projects segregated:

	FY 02-03	FY 03-04	FY 04-05	FY 05-06 year end est.
Capital Projects Actual Fund Totals	\$1,575,031	\$800,457	\$1,666,287	\$3,624,403
	FY06-07	FY2007	FY2008	FY2009
Capital Projects Fund projections	\$6,140,200	\$6,743,100	\$4,998,800	\$3,507,800
Municipal Facility Projections				
**				
Fire Station 2 (est. based upon 25,000 sf @ \$200 /sf)	\$5,000,000			
Police Facility (est. based upon 60,000 sf @ \$200 /sf)		\$12,000,000		
Village Hall (est. based upon 100,000 sf @ \$200 /sf)		\$20,000,000		

** Preliminary estimates are annual principal and interest payments for municipal buildings of \$3 million per year over a 20 year issuance period.

ATTACHMENTS:

- Home Rule Sales Tax Revenue Tracking Chart
- Sales Tax Revenue Tracking Chart
- Illinois State Report on Sales Tax Rates in Local Government

REQUESTED COURSE OF ACTION:

The materials provided in this report are for discussion among the Mayor and Council in order to provide staff direction in the development of the FY06-07 budget and long-term financial plan. If there is a desire to consider re-adoption of the Home Rule Sales Tax, it is recommended staff be directed to prepare the necessary documents for the February 14, 2006 Workshop agenda with formal action by the Village Council as early as February 21, 2006 to allow staff time to notify the Illinois Department of Revenue of any changes before April 1.

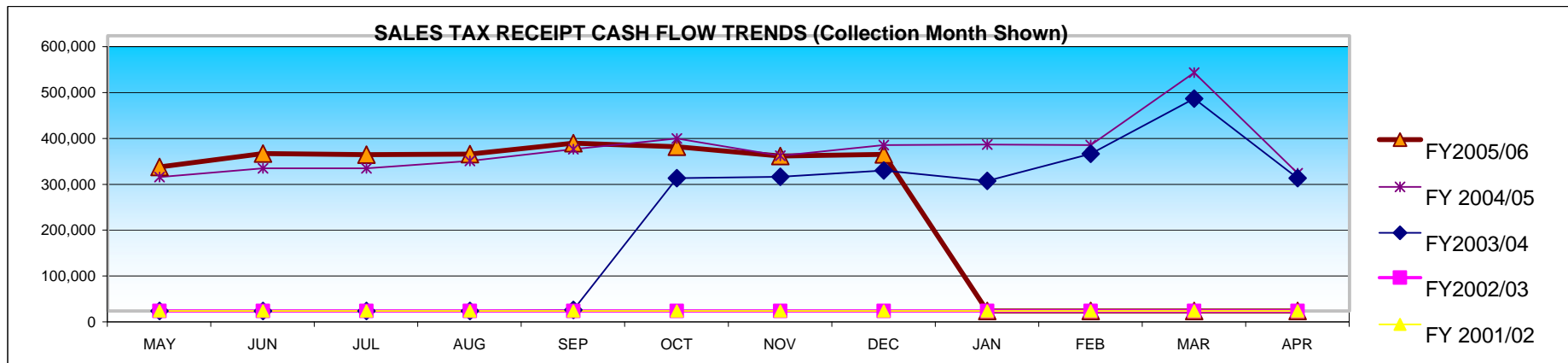
Village of Downers Grove

Comparison of Monthly and Cumulative Major Revenues
2001-02 through 2005-06

HOME RULE SALES TAX (Contributes 100% to General Fund)

Village Collection Month	FY 2001/02		FY2002/03		FY2003/04		FY 2004/05		FY2005/06		
	Actual Receipts	% Increase	Actual Receipts	% Increase	Actual Receipts	% Increase	Actual Receipts	% Increase	Budget Spread	Actual Receipts	% Variance From Budget
MAY	-	N/A	-	N/A	0	N/A	291,712	N/A	301,116	313,704	4.18%
JUN	-	N/A	-	N/A	0	N/A	311,087	N/A	321,116	343,435	6.95%
JUL	-	N/A	-	N/A	0	N/A	310,908	N/A	320,931	340,772	6.18%
AUG	-	N/A	-	N/A	0	N/A	327,362	N/A	337,916	342,037	1.22%
SEP	-	N/A	-	N/A	2,170	N/A	352,880	16163.79%	364,256	365,925	0.46%
OCT	-	N/A	-	N/A	289,852	N/A	376,260	29.81%	388,390	358,002	-7.82%
NOV	-	N/A	-	N/A	292,329	N/A	338,525	15.80%	349,439	337,886	-3.31%
DEC	-	N/A	-	N/A	306,282	N/A	361,484	18.02%	373,138	341,235	-8.55%
JAN	-	N/A	-	N/A	283,664	N/A	362,911	27.94%	374,611	N/A	N/A
FEB	-	N/A	-	N/A	342,899	N/A	361,470	5.42%	373,123	N/A	N/A
MAR	-	N/A	-	N/A	463,199	N/A	519,408	12.14%	536,153	N/A	N/A
APR	-	N/A	-	N/A	289,807	N/A	300,136	3.56%	309,812	N/A	N/A
Total					2,270,202		4,214,144	85.63%	\$ 4,350,000	\$ 2,742,996	

Year-to-Date Totals for Prior Year Actual Receipts		2,670,219
Difference of Current Year Actual Receipts from Last Year		72,778 2.73%
Year-to-Date Totals for Current Year Budgeted Receipts		2,756,302
Difference of Current Year Actual from Budgeted		(13,305) -0.48%



Village of Downers Grove

Comparison of Monthly and Cumulative Major Revenues
2001-02 through 2005-06

SALES TAX (Contributes 100% to General Fund)

Village Collection Month	FY 2001/02	FY 2002/03	FY 2003/04		FY 2004/05		FY 2005/06				
	Actual Receipts	Actual Receipts	% Increase	Actual Receipts	% Increase	Actual Receipts	% Increase	Budget Based on Actual Receipts	Actual Receipts	% Variance From Budget	Total FY05-06 Sales Tax
MAY	1,008,616	888,647	-11.89%	830,855	-6.50%	950,909	14.45%	965,646	1,009,940	4.59%	1,323,645
JUN	924,704	950,190	2.76%	921,808	-2.99%	949,272	2.98%	963,984	1,074,043	11.42%	1,417,478
JUL	1,075,669	1,070,120	-0.52%	1,025,885	-4.13%	958,582	-6.56%	973,438	1,066,510	9.56%	1,343,624
AUG	960,787	1,001,493	4.24%	976,148	-2.53%	1,047,824	7.34%	1,064,063	1,033,467	-2.88%	1,375,504
SEP	1,117,491	1,059,024	-5.23%	1,080,918	2.07%	1,039,479	-3.83%	1,055,589	1,225,377	16.08%	1,591,302
OCT	1,019,577	1,034,018	1.42%	944,867	-8.62%	1,119,268	18.46%	1,136,615	1,116,069	-1.81%	1,391,568
NOV	914,856	949,233	3.76%	883,775	-6.90%	1,164,317	31.74%	1,182,361	1,036,309	-12.35%	1,374,194
DEC	992,228	928,570	-6.42%	873,959	-5.88%	1,003,250	14.79%	1,018,798	1,030,817	1.18%	1,372,053
JAN	1,066,889	863,223	-19.09%	937,137	8.56%	1,023,962	9.26%	1,039,831	N/A	N/A	N/A
FEB	1,098,202	958,406	-12.73%	1,001,937	4.54%	1,029,906	2.79%	1,045,868	N/A	N/A	N/A
MAR	1,314,286	1,181,489	-10.10%	1,188,967	0.63%	1,359,906	14.38%	1,380,982	N/A	N/A	N/A
APR	712,168	778,160	9.27%	867,019	11.42%	957,978	10.49%	972,825	N/A	N/A	N/A
Subtotal	\$ 12,205,473	\$ 11,662,574	-4.45%	\$ 11,533,276	-1.11%	12,604,653	9.29%	\$ 12,800,000	\$ 8,592,532		\$ 11,189,368
Rebates	\$ (183,259)	\$ (202,791)		\$ (194,899)		\$ (364,006)		\$ (925,000)	\$ (569,365)		\$ (224,917)
Total	\$ 12,022,213	\$ 11,459,783	-4.68%	\$ 11,338,376	-1.06%	\$ 12,240,647	7.96%	\$ 11,875,000	\$ 8,023,167		\$ 10,964,451

Year-to-Date Totals for Prior Year Actual Receipts

8,232,901

Difference of Current Year Actual Receipts from Last Year

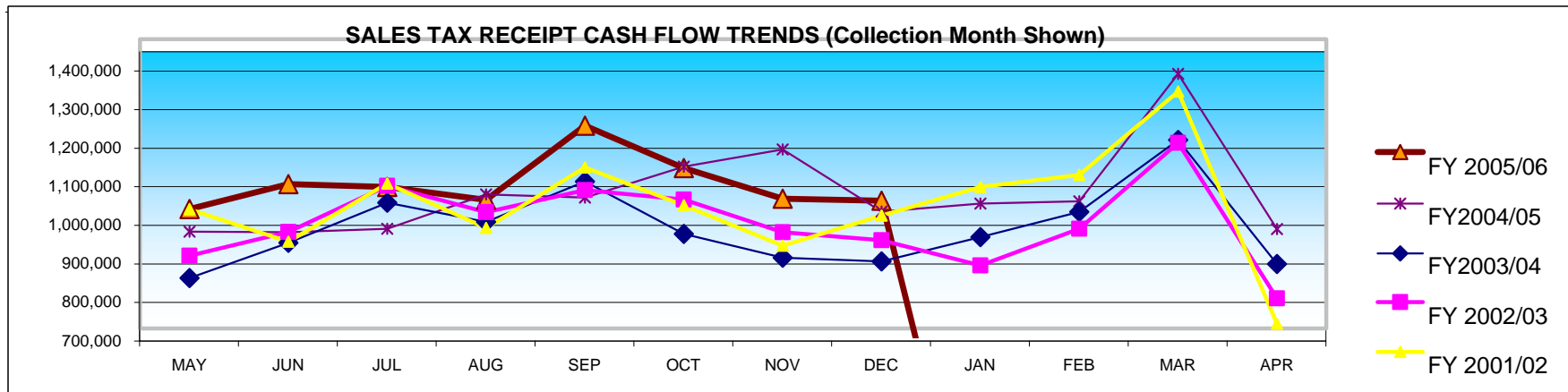
359,631 4.37%

Year-to-Date Totals for Current Year Budgeted Receipts

8,360,495

Difference of Current Year Actual from Budgeted

232,037 2.78%



Sales Tax Rates in Home Rule Units of Local Government

The following table outlines the sales tax rates for general merchandise current as of January 1, 2006, for each of the home rule units in Illinois that impose home rule sales tax. You will find the combined rate preprinted on your Forms ST-1 and ST-2 for each reporting period. These rates are subject to change January 1 and July 1 of each year.

	Home Rule Sales Tax Rate Current as of 1/1/2006
Addison	0.75%
Alsip	0.75%
Alton	0.50%
Arlington Heights	0.75%
Aurora (DuPage)	1.25%
Aurora (Kane)	1.25%
Aurora (Kendall)	1.25%
Aurora (Will)	1.25%
Bedford Park	0.75%
Belleville	0.50%
Bellwood	1.00%
Benton	1.00%
Berkeley	1.00%
Berwyn	1.00%
Bloomington	0.50%
Bloomington	1.25%
Bolingbrook (DuPage)	1.50%
Bolingbrook (Will)	1.50%
Bridgeview	1.00%
Buffalo Grove (Cook)	1.00%
Buffalo Grove (Lake)	1.00%
Burbank	0.75%
Burnham	1.00%
Cahokia	0.75%
Calumet City	1.00%
Calumet Park	1.00%
Carbondale	1.00%
Carlock	0.50%
Carol Stream	0.50%
Carpentersville	1.25%
Cartersville	1.00%
Champaign	1.25%
Channahon (Grundy)	1.00%
Channahon (Will)	1.00%
Chanute Field	1.00%
Chicago (Cook)	1.25%
Chicago (DuPage)	1.25%
Chicago Ridge	0.75%
Christopher	1.00%
Cicero	1.00%

* Cook County imposes a 0.75% county home rule sales tax. For unincorporated areas in Cook County, the ST-1/ST-2 combined rate remains at 7.75%. For home rule municipalities within Cook County that impose home rule sales tax, the ST-1/ST-2 combined rate varies (see the entries for each municipality).

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**Home Rule
Sales Tax Rate
Current as of 1/1/2006**

Country Club Hills	1.25%
Crainville	1.00%
Danville	1.25%
Darien	0.75%
Decatur	1.50%
Deerfield (Cook)	0.50%
Deerfield (Lake)	0.50%
DeKalb	1.25%
Des Plaines	0.75%
Dolton	0.50%
Downers Grove	0.50%
Du Quoin	1.00%
East Dundee (Cook)	1.00%
East Dundee (Kane)	1.00%
East Hazel Crest	0.50%
East St. Louis	1.00%
Elgin (Cook)	0.75%
Elgin (Kane)	0.75%
Elk Grove Village (Cook)	1.00%
Elk Grove Village (DuPage)	1.00%
Elmhurst (Cook)	0.25%
Elmhurst (DuPage)	0.25%
Elmwood Park	1.00%
Elwood	1.00%
Evanston	1.00%
Evergreen Park	0.75%
Fairview Heights	0.50%
Forest View	1.00%
Freeport	0.25%
Galesburg	1.00%
Glendale Heights	0.75%
Glenview (Cook)	0.50%
Granite City	1.50%
Gurnee	0.50%
Hanover Park (Cook)	0.50%
Hanover Park (DuPage)	0.50%
Harvey	1.00%
Harwood Heights	1.25%
Herrin	1.25%
Highland Park (Lake)	1.00%
Hillside	1.00%

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Sales Tax Rates in Home Rule Units of Local Government

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	Home Rule Sales Tax Rate Current as of 1/1/2006
Hoffman Estates (Cook)	1.00%
Hoffman Estates (Kane)	1.00%
Jacksonville	0.75%
Joliet (Kendall)	1.25%
Joliet (Will)	1.25%
Lake Bluff	1.00%
Lansing	0.50%
Lincolnwood	1.00%
Marion	1.25%
Mascoutah	0.25%
McCook	1.00%
Moline	1.00%
Monee	1.00%
Monmouth	1.00%
Morton Grove	1.00%
Mount Prospect	0.75%
Mount Vernon	1.00%
Mundelein	0.75%
Murphysboro	1.00%
Nauvoo	0.75%
Niles	1.00%
Normal	1.25%
Norridge	1.25%
Northbrook	0.50%
Northlake (Cook)	1.00%
Northlake (DuPage)	1.00%
Oak Lawn	0.50%
Oak Park	1.00%
Oakbrook Terrace	1.00%
Orland Park (Cook)	0.75%
Orland Park (Will)	0.75%
Palatine	1.00%
Park City	0.50%
Park Ridge	0.75%
Park Ridge Manor	0.75%
Pekin (Tazewell)	1.00%
Pekin (Peoria)	1.00%
Peoria	1.50%
Peoria Heights (Peoria)	1.00%
Peoria Heights (Tazewell)	1.00%
Peoria Heights (Woodford)	1.00%

* Cook County imposes a 0.75% county home rule sales tax. For unincorporated areas in Cook County, the ST-1/ST-2 combined rate remains at 7.75%. For home rule municipalities within Cook County that impose home rule sales tax, the ST-1/ST-2 combined rate varies (see the entries for each municipality).

Sales Tax Rates in Home Rule Units of Local Government

The following table outlines the sales tax rates for general merchandise current as of January 1, 2006, for each of the home rule units in Illinois that impose home rule sales tax. You will find the combined rate preprinted on your Forms ST-1 and ST-2 for each reporting period. These rates are subject to change January 1 and July 1 of each year.

	Home Rule Sales Tax Rate Current as of 1/1/2006
Posen (Cook)	0.50%
Quincy	1.50%
Rantoul	1.00%
Rock Island	0.75%
Rolling Meadows	1.00%
Romeoville	1.00%
Rosemont (Cook)	1.25%
Round Lake Beach	0.50%
Sauget	0.25%
Schaumburg (Cook)	1.00%
Schaumburg (DuPage)	1.00%
Schiller Park	0.75%
Sesser	1.00%
Sherman	0.50%
Skokie	1.00%
South Barrington	1.00%
South Holland	0.50%
Springfield	1.50%
St. Charles (Kane)	1.00%
St. Charles (DuPage)	1.00%
Stickney	1.00%
Stone Park	1.50%
Streamwood	1.00%
Sycamore	0.75%
Tilton (Vermilion)	0.50%
Tuscola	0.50%
University Park (Cook)	1.00%
University Park (Will)	1.00%
Urbana	1.00%
Warrenville	0.75%
Washington	1.00%
Watseka	0.75%
Waukegan	1.00%
West Dundee	1.50%
Wheaton	0.50%
Wheeling (Cook)	1.00%
Wheeling (Lake)	1.00%
Wilmette	0.25%
Cook County (Countywide)	0.75%

* Cook County imposes a 0.75% county home rule sales tax. For unincorporated areas in Cook County, the ST-1/ST-2 combined rate remains at 7.75%. For home rule municipalities within Cook County that impose home rule sales tax, the ST-1/ST-2 combined rate varies (see the entries for each municipality).

Sales Tax Rates in Non-Home Rule Units of Local Government

The following table outlines the sales tax rates for general merchandise current as of January 1, 2006, for each of the non-home rule units in Illinois that impose non-home rule sales tax. You will find the combined rate preprinted on your Forms ST-1 and ST-2 for each reporting period. These rates are subject to change January 1 and July 1 of each year.

	Non-Home Rule Sales Tax Rate Current as of 1/1/2006
Arcola	0.50%
Batavia (DuPage)	0.50%
Batavia (Kane)	0.50%
Broadview	0.50%
Canton	0.50%
Carbon Cliff	0.50%
Carthage (Hancock)	0.50%
Charleston	0.50%
Chillicothe	0.50%
Clinton	0.50%
Dixon	0.50%
East Dubuque	0.50%
East Moline	0.50%
East Peoria	1.25%
Forest Park	0.50%
Forsyth	0.50%
Galena	0.50%
Greenville	0.50%
Havana	0.50%
Highwood	0.50%
Itasca	0.50%
Jerseyville	0.50%
La Salle	0.50%
Lake Forest	0.50%
Lincoln	0.50%
Litchfield	0.50%
Macomb	0.50%
Mattoon	0.50%
Merrionette Park	0.50%
Mokena	0.50%
North Aurora	0.50%
North Riverside	0.50%
O'Fallon	0.50%
Oak Brook (Cook)	0.25%
Oak Brook (DuPage)	0.25%
Ottawa	0.50%
Palos Park	0.50%
Paris	0.50%
Princeton	0.50%
Prospect Heights	0.50%
Richton Park	0.50%
Riverwoods	0.50%
Rock Falls	0.50%
Salem	0.50%
Silvis	0.50%

Sales Tax Rates in Non-Home Rule Units of Local Government

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**Non-Home Rule
Sales Tax Rate
Current as of 1/1/2006**

Sleepy Hollow	0.50%
Sparta	0.50%
Sterling	0.50%
Streator (LaSalle)	0.50%
Streator (Livingston)	0.50%
Swansea	0.50%