



Legislation Text

File #: 18-102, Version: 1

FINANCIAL ADVISORY BOARD AGENDA ITEM

ACTION REQUESTED:

Conduct the first reading of the Home Rule Sale Tax and Downtown Food and Beverage Tax Ordinance Amending Section 11 of Chapter 1, Title 3, and Amending Section 9 of Chapter 1, Title 3 of the Naperville Municipal Code. (Item 4 of 4)

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

At their August 28, 2017 board meeting, The Financial Advisory Board recommended a 1.00% Home Rule Sales Tax and the elimination of the current property tax abatement.

BACKGROUND:

Home Rule Sales Tax

The City of Naperville is a home rule unit of local government. The 1970 Illinois Constitution granted home rule authority to qualifying municipalities providing those municipalities with the ability to exercise any power and perform any function pertaining to its government and affairs including, but not limited to, the power to regulate for the protection of the public health, safety, morals and welfare which includes the broad general power to tax.

Illinois law authorizes the imposition of Home Rule Sales Taxes (HRST) by a home rule municipality upon all persons engaged in the business of selling certain tangible personal property at retail in the municipality of the gross receipts from such sales; and upon all persons engaged in the municipality of certain tangible personal property transferred by said servicemen either in the form of tangible personal property or in the form of real estate as an incident to a sale of service. The sale of certain items such as vehicles registered or titled with the State of Illinois, groceries other than alcoholic beverages, soft drinks and food prepared for immediate consumption and prescription and nonprescription medicines, drugs and certain medical appliances are statutorily exempt from the Home Rule Sales Tax.

Home Rule Sales Taxes are administered, collected and enforced by the Illinois Department of Revenue (IDOR). Two annual deadlines are imposed for the implementation of a Home Rule Sales Tax. If an ordinance is adopted and filed on or before by October 1, IDOR will begin administering and enforcing the Home Rule Sales Tax as of January 1 the next year. The second filing deadline is April 1 for a July 1 implementation.

On September 1, 2015, the City approved an ordinance (15-160) establishing a Home Rule Sales Tax at the rate of 0.50%, specifying proceeds of the tax would be restricted for use in increasing the

City's cash reserves and reducing the City's debt. The ordinance included a sunset provision which required the City to review the ordinance for continued appropriateness in two years. The ordinance (17-147) was re-authorized at the September 19, 2017 City Council meeting for an additional two-year term when the City will re-assess the ordinance for continued appropriateness.

It is notable that the State of Illinois imposes a 2.00% administrative fee that is retained by the state to cover the costs of administering the taxes imposed by municipalities.

Food and Beverage Tax

The City's Downtown Food and Beverage Tax, pursuant to Section 3-1-9 of Naperville Municipal Code, requires an adjustment of said tax in the event of enactment of a Citywide "Home Rule Sales Tax" that is imposed for the purpose of financing parking facilities, and it is foreseeable that the Home Rule Sales Tax would be used to reduce debt for any potential parking facilities. If the Home Rule Sales Tax ordinance is sunset or the rate is amended, the City will need to adjust the Downtown Food and Beverage Tax commensurate with the rate change in the Home Rule Sales Tax.

DISCUSSION:

During the December 19, 2017 City Council meeting, the motion to approve the City's property tax levy was amended to direct staff to bring back for Council consideration \$2.1 million in changes that would further reduce the property tax levy to an amount less than last year's levy.

As a component of the \$2.1 million in changes that would further reduce the property tax levy, it is recommended that the City increase its Home Rule Sales Tax from 0.50% to 0.75%, effective July 1, 2018.

To have an increase become effective July 1, 2018, Council must pass an ordinance to that effect prior to April 1, 2018.

FISCAL IMPACT:

The City currently receives approximately \$9.1 million in annual receipts through the Home Rule Sales Tax at a 0.50% rate. Therefore, an incremental 0.25%, for a total rate of 0.75%, is projected to gross \$4.55 million on an annual basis. The state assesses a 2% administrative fee, meaning the total net annual revenues are \$4.46 million.

Similar to the implementation of the telecommunications tax, there is a three-month delay in the disbursement of the funds once the tax is enacted. Therefore, if the tax is approved for a July 1 implementation, the City would begin receiving disbursements starting October 2018. The total projected value for 2018 is \$1.1 million.