



AGENDA ITEM EXECUTIVE SUMMARY

Agenda Item Number: 6.c

Title:	Recommendation to approve an Ordinance Amending Title 3, “Revenue and Finance,” Chapter 3.36 “Home rule Municipal Retailers’ and Service Occupation Tax,” of the St. Charles Municipal Code
Presenter:	Bill Hannah, Director of Finance

Meeting: Government Operations Committee

Date: February 6, 2023

Proposed Cost: \$

Budgeted Amount: \$ N/A

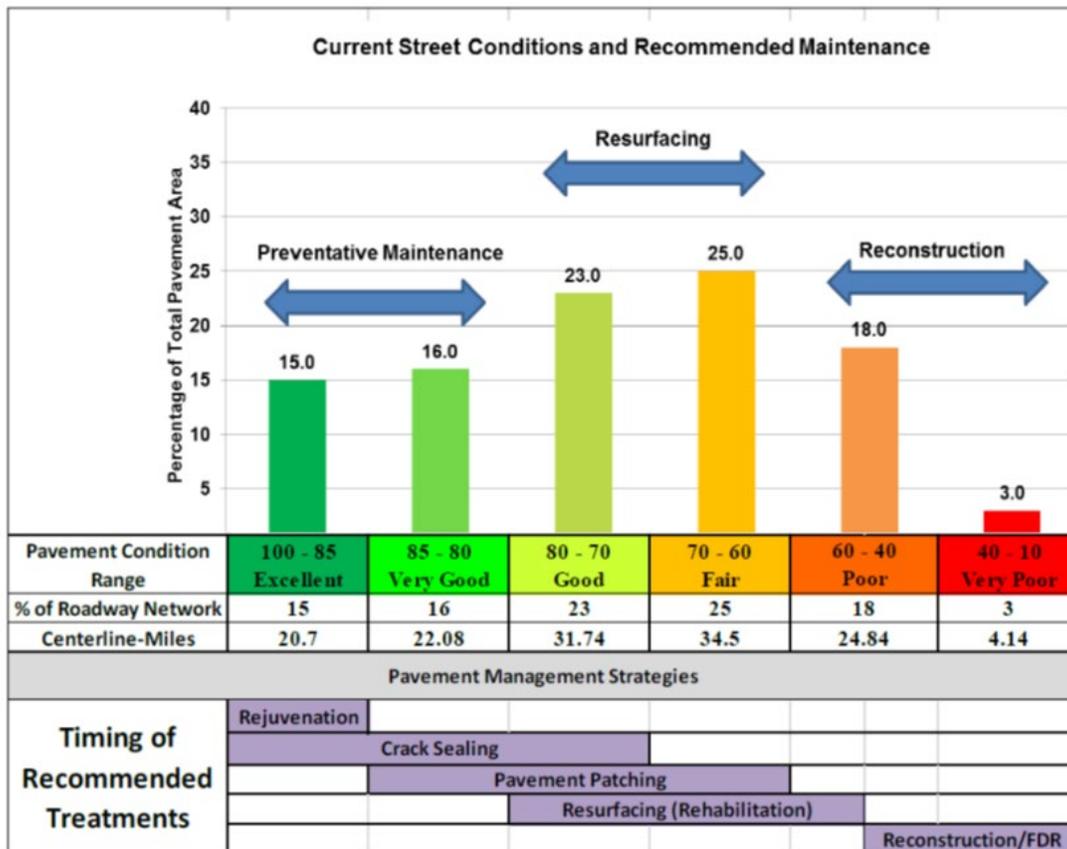
Not Budgeted:

Executive Summary (if not budgeted please explain):

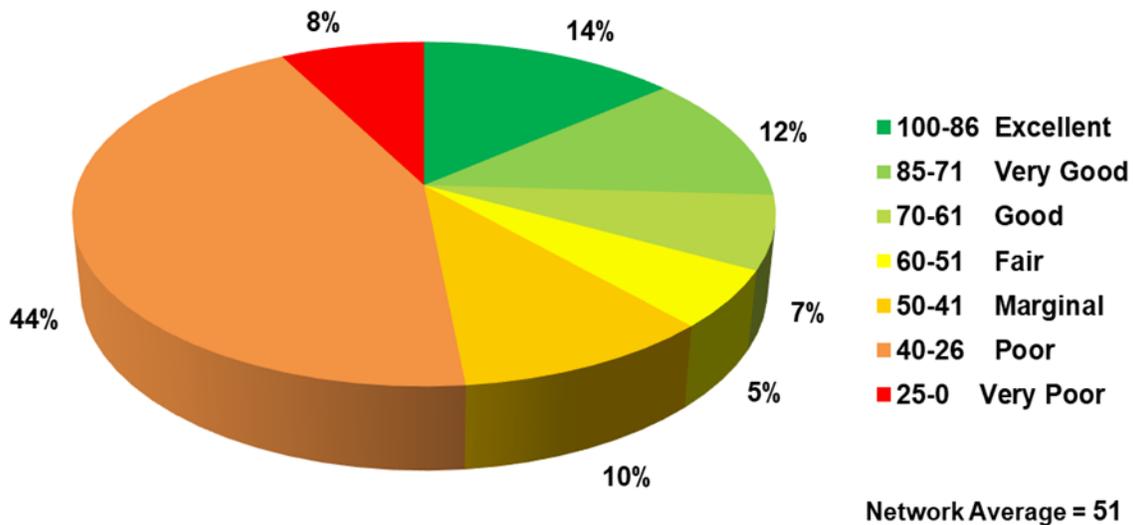
Background

At the City’s budget workshop held on January 23, 2023, City staff presented information on a recent study that was completed by Public Works regarding the current condition of the City’s 138 miles of streets and related infrastructure. This study showed that the overall condition of the City’s streets has significantly decreased over the last five years since the last time a City-wide evaluation was done. The study that was done in 2017 is shown below and the updated 2022 condition is shown on the following page.

2017 Street Condition Study



Street Conditions - Year 2022 At Tested



As the study from 2022 shows, a greater percentage of streets are now in the poor to very poor category. This means the number of streets that will require some form of significant rehabilitation or reconstruction has increased from the number of streets requiring resurfacing. In today's dollars, an average mile of resurfacing costs \$510,000 while an average mile of reconstruction can cost \$1,630,000. This means a significant amount of additional resources are necessary in order to catch up and improve the overall condition of the roadway network.

The City currently has, on average, \$2,900,000 available annually to fund street improvements (can vary on an annual basis). This generally means that the City's improvement cycle for all City streets is roughly 50 years. At this level of road treatment, many roads may require a more expensive improvement treatment after 20-25 years, if not resurfaced during that time. In order to "catch-up" and move the City to a better roadway treatment cycle (i.e. 30-40 years) it is estimated that an annual expenditure level of \$6,500,000 to \$7,100,000 is necessary, leaving a funding gap of at least approximately \$3,600,000 to \$4,200,000 annually.

Options for Addressing Roadway and Related Infrastructure Funding

In order to consider roadway system funding options, the City identified options such as an increase in the local 2-cent fuel tax, establishing a 3% natural gas tax, establishing a 1% local food and beverage tax, increasing the 3% alcohol tax, increasing property taxes or going to referendum to establish a real estate transfer tax. All of the above options, if established or increased at typical rates, would generate only \$450,000 to \$1,500,000 annually.

The other option that the City identified as the most financially impactful was an increase in the local home rule sales tax. Currently, at 1%, an increase in the local home rule sales tax from 1.00% to 1.50%

would generate approximately \$4,400,000 per year. The City's current local home rule sales tax is applicable to most taxable sales in the City, but excludes qualifying food, drugs or titled vehicles as described below by the Illinois Department of Revenue:

- "Qualifying food, drugs, and medical appliances" include:
 - food that has not been prepared for immediate consumption, such as most food sold at grocery stores, excluding hot foods, alcoholic beverages, candy, and soft drinks;
 - prescription medicines and nonprescription items claiming to have medicinal value, such as aspirin, cough medicine, and medicated hand lotion, excluding grooming and hygiene products; and
 - prescription and nonprescription medical appliances that directly replace a malfunctioning part of the human body, such as corrective eyewear, contact lenses, prostheses, insulin syringes, and dentures.
- "Items required to be titled or registered"
 - Include motor vehicles, ATVs, watercraft, aircraft, trailers and mobile homes

The other attribute of the local home rule sales tax that was viewed favorably was that it is estimated that approximately 40% to 60% of the home rule sales taxes paid are paid by non-residents, and that would shift the obligation more to non-residents, which is not the case with some of the other options. The City's local home rule sales tax initially was created in 1994 at 0.25%. It was increased in 1997 to 0.50% and increased again in 2004 to the current 1.0%.

Application of the Additional Local 0.50% Home Rule Sales Tax

During the discussion at the budget workshop on January 23rd City staff indicated that if implemented, the additional revenues from the 0.50% home rule sales tax increase would be restricted by Ordinance to ensure that the funds were used for streets, bridges and related infrastructure. The attached ordinance includes language which states that the funds will be used "for the purpose of funding improvements to the City's road and pedestrian network system, including but not limited to right-of-way improvements and related infrastructure." This definition allows Public Works to effectively implement roadway and related improvements as discussed at the January 23rd meeting.

Implementation

The State of Illinois has two annual deadlines to process changes in any local sales tax rates imposed by local governments. Ordinances must be submitted by April 1 to be effective July 1, or submitted by October 1 to be effective January 1. The attached ordinance is being considered now in order to allow enough time to the meet the City's deadlines for implementation on July 1, 2023.

Attachments (please list):

Ordinance Amending Title 3, "Revenue and Finance," Chapter 3.36 "Home rule Municipal Retailers' and Service Occupation Tax," of the St. Charles Municipal Code

Recommendation/Suggested Action (briefly explain):

Seeking a Motion to Approve an Ordinance Amending Title 3, "Revenue and Finance," Chapter 3.36 "Home rule Municipal Retailers' and Service Occupation Tax," of the St. Charles Municipal Code

City of St. Charles, Illinois
Ordinance No. _____

**AN ORDINANCE OF THE CITY OF ST. CHARLES, KANE
AND DUPAGE COUNTIES, ILLINOIS, AMENDING TITLE 3,
“REVENUE AND FINANCE,” CHAPTER 3.36, “HOME RULE MUNICIPAL
RETAILERS’ AND SERVICE OCCUPATION TAX,”
OF THE ST. CHARLES MUNICIPAL CODE**

**Presented & Passed by the
City Council on _____**

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF ST. CHARLES, KANE AND DUPAGE COUNTIES, ILLINOIS, AS FOLLOWS:

Section 1. That Title 3, “Revenue and Finance,” Chapter 3.36, “Home Rule Municipal Retailers’ and Service Occupation Tax,” of the St. Charles Municipal Code be and is hereby amended by deleting the same and substituting the following therefore:

3.36.010 – Tax Imposed

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 this State’s government, at retail in this municipality at the rate of one and one-half percent (1.50%) of the gross receipts for such sales made in the course of such business while this Ordinance is in effect; and a tax is hereby imposed upon all persons engaged in this municipality in the business of making sales of service, at the rate of one and one-half percent (1.50%) of the selling price of all tangible personal property transferred by such serviceman as an incident to a sale of service. This “Home Rule Municipal Retailers’ Occupation Tax” and this “Home Rule Municipal Service Occupation Tax” may not be imposed on tangible personal property taxed at the rate of one percent (1.0%) under the Retailers’ Occupation Tax Act and the Service Occupation Tax Act.

Of the 1.50% rate imposed by this Section, one-half of one percent (.50%) shall be used for the purpose of funding improvements to the City’s road and pedestrian network system, including but not limited to right of way improvements and related infrastructure.

3.36.020 – Collection – Payment

The taxes 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 Ordinance.

3.36.030 – Filing

The City Clerk is hereby directed to file a certified copy of this Ordinance with the Illinois Department of Revenue on or before April 1, 2023.

3.36.040 – Effective Date

This Ordinance shall take effect on (i) the first day of July next following the adoption and filing of this Ordinance with the Department of Revenue, if filed on or before the preceding April 1st or (ii) the first day of January next following the adoption and filing of this Ordinance with the Department of Revenue, if filed on or before the preceding October 1st.

Section 2. All ordinances and resolutions, or parts thereof, in conflict with the provisions of this Ordinance are, to the extent of the conflict, expressly repealed on the effective date of this Ordinance.

Section 3. That after the adoption and approval hereof, the Ordinance shall (i) be printed or published in book or pamphlet form, published by the authority of the Council, or (ii) within thirty (30) days after the adoption and approval hereof, be published in a newspaper published in and with a general circulation within the City of St. Charles.

Section 4. If any provision of this Ordinance or application thereof to any person or circumstance is ruled unconstitutional or otherwise invalid, such invalidity shall not affect other provisions or applications of this Ordinance that can be given effect without the invalid application or provision, and each invalid provision or invalid application of this Ordinance is severable.

PRESENTED to the City Council of the City of St. Charles, Illinois, this _____ day of _____, 2023.

PASSED by the City Council of the City of St. Charles, Illinois, this _____ day of _____, 2023.

APPROVED by the Mayor of the City of St. Charles, Illinois, this _____ day of _____, 2023.

Lora A. Vitek, Mayor

ATTEST:

City Clerk

COUNCIL VOTE:

Ayes:

Nays:

Absent:

Abstain: