

MINUTES
GOVERNMENT OPERATIONS COMMITTEE
MONDAY, JULY 16, 2018

1. Call to Order

The meeting was convened by Chairman Bancroft at 8:07 pm.

2. Roll Call

Members Present: Chairman Bancroft, Stellato, Silkaitis, Payleitner, Lemke, Turner, Gaugel, Vitek, Bessner, and Lewis

Members Absent: None

3. Omnibus Vote. Items with an asterisk (*) are considered to be routine matters and will be enacted by one motion. There will be no separate discussion on these items unless a council member/citizen so requests, in which event the item will be removed from the consent agenda and considered in normal sequence on the agenda.

Motion by Ald. Turner, second by Stellato to approve the omnibus vote.

Voice Vote: Ayes: Unanimous; Nays: None. Chairman Bancroft did not vote as Chair. **Motion Carried**

4. Finance Department

*a. Budget Revisions – June, 2018

b. Seeking a Recommendation to Approve an Ordinance Amending the Alcohol Tax Rate to 3% for the City of St. Charles.

Chris Minick: Tonight we will continue our discussion of alternate revenue sources. I'd like to recap where we are in the process and review what we've done to date. I'll briefly go over the specifics of the three main alternative revenue sources. Ultimately we will be requesting formal recommendation on the 2 ordinances enclosed in the packet. We've talked about the need for changes in the revenue structure. Some of the main reasons for that are:

1. The Tax Levy has been frozen at approximately \$12M for the past 9 years.
2. Significant capital projects in process and upcoming.
3. Increasing expenses over the 9 years that the levy has been frozen, particularly pension costs.

At the September, 2017 City Council Retreat we started discussing additional revenue sources. To date the Council has directed staff to focus mainly on discretionary revenue sources. We were directed to look at the following:

1. Local fuel tax
2. Alcohol tax
3. Hotel/motel tax

The 3 sources listed above, as currently proposed, would generate about \$1.38M in total revenues

for the general fund.

We talked in June about a local fuel tax. Staff presented an ordinance that proposed a local fuel tax of \$.02 per gallon to be imposed at fueling stations within the City. The proposed implementation was November, 2018. We estimated that this would generate \$400,000 on an annual basis to be used to fund road improvements and related capital projects. The Government Operations Committee did recommend denial of the fuel tax at the June 18, 2018 meeting and we're anticipating a final City Council vote at the August 6, 2018 meeting.

We were directed to examine the alcohol tax. Currently we have an alcohol tax that applies to all alcohol sales in the city limits; both package sales and service of alcohol intended for immediate consumption. This 2% tax generates approximately \$1.2M annually.

As far as imposing an alcohol tax the City is in the minority. Most municipalities impose a food and beverage tax or places for eating tax, as opposed to an alcohol tax. Those type of taxes apply more specifically to food and beverage intended for immediate consumption. Typically this would apply to alcoholic and non-alcoholic beverages. Non home rule communities have the ability to implement this type of tax, and the patterns from the survey are mixed. Sixteen of the thirty-four communities surveyed did have some form of a prepared food and beverage tax. Typically the rates were 1% - 2% of sales, applying mostly to beverages intended for immediate consumption. When we summarized the results of the survey we saw that package sales are sometimes exempt from those types of taxes.

Consistent with Committee direction staff did include an ordinance in the packet tonight that increases the alcohol tax to 3% within the City. As it's currently written that ordinance draft would apply equally to all package sales and sales of alcohol for immediate consumption. We estimate the additional revenue generated would be approximately \$600,000 as the ordinance is currently written. We did impose a September 1, 2018 implementation date for that change.

We were also directed to look at the hotel/motel tax. The city currently imposes a 5% hotel/motel tax that generates approximately \$1.9M annually. Approximately 30 of the 34 communities surveyed did impose a hotel tax in some way. Non home rule communities also have the ability to implement a hotel/motel tax. Under State statute non-home rule communities are limited to a 5% rate and the proceeds must be used on tourism and expenditure that are related to the promotion of tourism. Home rule communities essentially have no limitations with regard to the hotel/motel tax. Consistent with Committee direction we did include an ordinance that would propose an increase to the hotel/motel tax to 6%. We estimate that would generate approximately \$380,000 annually. We are proposing a September 1, 2018 implementation date.

We are seeking direction on the 2 ordinance proposals in the packet tonight, taking the alcohol tax from 2% to 3%, generating approximately \$600,000 per year, and we're also seeking recommendation on the proposed hotel/motel tax change from 5% to 6% which would generate about \$380,000 a year. As a reminder we do also have the local fuel tax ordinance that is pending at the City Council level. That was recommended for denial; we anticipate that final vote in August. Based on the three proposals as they are written we approximate about \$1.38 M in additional revenue for the General Fund.

Ald. Bessner: When was the last time the hotel/motel tax was adjusted?

Chris: It's been at least 10 years.

Ald. Vitek: Can you explain how the \$1.38M affects the General Fund? How it helps the shortfall?

Chris: When we looked at how the construction of the Police Station, the 7th Avenue Creek Project, and Active River Development impacted finances over a thirty year period we saw a deficit coming in a few years. That deficit approached \$1.3M - \$1.7M. We are looking to close the gap and provide the resources the General Fund needs to be able to support our current levels of operations, maintenance and anticipated capital projects as we move forward.

Ald. Gaugel: Both of these will hamper our businesses ability to compete and attract business. The hotel/motel tax will particularly put us at a disadvantage. City Administrator Koenen sent out a listing of Chicago area tax rate collected on the hotel/motel taxes. Out of the total of 224 listed only 62 were greater than 5%. If we increase this we will do a considerable amount of harm in the ability of the Convention and Visitors Bureau, which we give a tremendous amount of funding, to attract business. I'm not in favor of that. Ald. Vitek asked about Naperville and Oakbrook in particular. Oakbrook was at 3% and Naperville just recently increased to 5.5%. Comparatively speaking, increasing to 6% still puts us at a significant disadvantage to both those communities. Both of these are a no for me.

Ald. Turner: I realize we need the money for capital projects. I'm more concerned about finding a way to fund the pensions that's not on the property tax. We have this additional sales tax; we can use the money any way we want. If we tell our residents we're raising their property tax to fund pensions that money ends up in Springfield and they get nothing for it. If they pay more in tax for gas or alcohol at least they get something. I think this is something that needs to be looked at. These pensions aren't going away, if anything they will get worse. You and I haven't talked yet, but I think we're going to have to talk about just how far behind we are on that schedule because I think we are.

Ald. Lemke: The hotel/motel tax is a concern for me particularly when you are trying to appeal to conventions. We could lose training and convention business and I have a concern about that. The sales tax, some of that will end up in Springfield, I'm a little more supportive of an adjustment to the alcohol tax as opposed to food. I'd be in that box. As I've said before, hunting ground for all of these things, when we know that we could be trying to maintain the same tax rate on property. Really we have been reducing it in a face of a development that costs more in services and more in capital.

Ald. Payleitner: I'm okay with the hotel/motel tax increase. More Convention and Visitor's Bureau (CVB) funding will market the other amenities we offer so when a convention comes to St. Charles they aren't just looking at the hotel room rate, they look at what else we have. That is up to the CVB to sell our area. I think with the extra funding they can sell us. As far as the alcohol tax; I'm okay with that as well. We recently gave our proprietors, I didn't I was opposed to it, video gaming. Looking at the reports and what they have made in usage of that I don't see it as a real burden. Also, when I see an added cost for maintaining our entertainment district. There is an increase in police salaries, more need for public works, all these things add up. We have to pay for it. I think an alcohol tax would be a good way to do that.

Ald. Silkaitis: How much is the State of Illinois withholding now?

Chris: Roughly, \$260,000 - \$275,000.

Ald. Silkaitis: Unfortunately we have all these projects coming due. I still don't know what to do. If we don't raise some of the taxes we can't do anything we have planned for our capital improvements. We can but we would need to change our reserves, something.

Chris: We would need to do something somewhere to the financial model either on the revenue side, the expenditure side, reserves perhaps. There would still be a structural imbalance even if we utilized the reserves for a period of time.

Ald. Silkaitis: It seems like we've have no tax increases and all of a sudden we're going for 5 in one year. It's too much. We can't go from none to 5 and adding a new tax. How do we fund the City operations? I don't have an answer. I think we run a pretty lean machine here.

Ald. Stellato: Chris can you walk through the bonding rating and how diversifying our tax base helps us?

Chris: The bonding companies when rating us look for our ability to pay back the debt on the books and that we're incurring. One of the areas focused on is what kind of flexibility we have should there be an economic downturn, or what kinds of diversification we have in terms of the businesses and revenue sources the City has. They look at the types of revenue we have as a positive influence on our ability to weather an economic downturn. Most economic downturns are limited in scope and don't impact all the areas of an entities revenue base for a long period of time significantly. If we have a hotel tax and the ability to move and shift our tax rates as needed they view that as a positive. It's another positive if we have and alcohol tax. It's another revenue source that's not legally restricted by the State or anyone else that can be adjusted as needed. They look at those combined factors and having a good diversification of the revenue base can be a positive influence on the bond rating. The better our bond rating the lower our interest cost on the bond.

Ald. Stellato: A half a point in the bond rating does what to our debt service?

Chris: Depending on how much is being borrowed; it could be a significant amount of money on a \$20M project.

Ald. Stellato: That to me says I support the diversification. I support spreading this out a little bit. How much does the CVB get every year?

Chris: \$525,000 approximately.

Ald. Stellato: I'm okay.

Ald. Vitek: The 3 options, the way I see it is a strategic approach; we're considering 3 instead of one. If we don't do this now we're putting ourselves at a disadvantage. We're going to have much tougher conversations in the fall and in the future about other taxes we're going to have to consider regardless if we do this or not. The way I see this community work is we are moving forward, growing new programs/projects. I know there are some people out there who want additional parking. I don't know how we continue to consider those things if we're not funding

the General Fund. These three taxes are an easier way to get that ball rolling. I don't know where we all sit with the options that might come about in the fall and in the future.

Ald. Lewis: I support both taxes. When I first joined the Council the alcohol tax was just implemented. There were many fears and in addition to that their hours got expanded.

Chris: I believe you are correct.

Ald. Lewis: There was a trade-off. They got to have longer hours with the tax and there was this fear that they wouldn't be competitive. Our liquor licenses have grown tremendously in these last 8 years. It's probably doubled what we had. I don't think it's an impact on business. People still want to open businesses in St. Charles. I doubt a 1% increase in tax will keep people from opening their businesses here. We're more than just a place to drink. We have so much more going for us. There are so many more reasons for them to come here. I don't think this will affect the bottom line. It will help ours.

Ald. Turner: We have many projects we'd like to see, some of us agree with them, some of us don't agree. The point is they are going to keep coming. It's all to improve the community. We make bold plans in a lot of ways for our downtown, the creeks, and we've always done that. There is no reason for us to start cutting back now. We've always done it the best we can. It's really not the projects we're looking forward to, or that will be proposed in the future. They are bold, but we haven't been that bold when it comes to getting revenue. There is a cost to the projects we're telling people are coming to the City. They ought to know that. Overall it's going to make the City a better place to live. I'm in favor of both these taxes also.

Mayor Rogina: I'd like to remind you that we kind-of made a vow a number of years ago about taking new sources of revenue. Ald. Vitek says it very well. As opposed to nit-picking the community one at a time, the package here, a lot of it impacts visitors to our community. To your point about the hotel/motel tax, if the calculation is on a \$200 room 6% increases the cost by \$2.50. The diversification point is quite important to me. We're bonding quite a bit. We have \$25M in our police station a big tax to our residents over a number of years. How do we help fund that? The bonding people are going to want to know that. I'm proud of the fact that we've held the line on property taxes for almost a decade. I think this is a starting point, \$1.38M. Personally, I think Ald. Payleitner is right. Those who have chosen to use gaming have seen a nice source of revenue. If you're going to have an entertainment district in this community additional resources are needed. When we decide to expand our hours to 2 am, the licensees say that's what they want, fine. We have the resources for that. If there is a way to lessen the blow a little bit, it wouldn't be inappropriate to start with the B & C licenses. Taking that to 3% and leaving the A licenses, who do not demand as much of our resources, at 2%. I'm in favor of a user tax particularly on the elastic goods. I think the question on the fuel tax will be interesting on August 6. I look forward to that vote.

Chairman Bancroft: Are there any questions or comments from the audience for the Council?

Rob Mondri, Grandstander, downtown St. Charles: A group of us got together last week to discuss the impact of this. A couple things to consider is that in the bar business there is no easy way to pass along that tax. If you do a food and beverage tax we can pass the tax, or at least some of it, along to the consumer. If we need to offset things with the hotel tax, and bring more people into town, maybe consider adding food to that. With that being said as your taxing maybe

consider using a portion of this for parking. We talked about the doubling of the liquor licenses; we've doubled the business, but have we doubled the amount of parking to allow for patrons to use our restaurant, bars, and entertainment. On any given day of the week, especially during lunch, it's at capacity. We would welcome even more customers in every one of these locations. Additional late night hours would help. We do have the gaming, but it's only for people who have been here a year or longer. Maybe you do something where you put a limit on the number of gaming licenses and remove the competitive disadvantage for new businesses. Main Street Pub put in a lot of money and they had to sit out for a year. The gaming has 3 big guys that make \$100,000, and there are a handful that make \$50,000 - \$60,000 and it drops from there. It's somewhat lucrative, but only for the big guys that are more established. Maybe think of a way to take away that disadvantage. I don't know what the breakdown is between liquor and food. I think if you did a lower tax, but taxed both; you'd get to the same thing maybe more. Some of this is harder to pass on than others. Batavia had a \$1.2M deficit and they did a half a percent across the board. Geneva had a similar thing voting on the food and beverage and did something across the board.

Ald. Bessner: I'll be abstaining from item 4b.

Ald. Bessner: Item 4b is on the alcohol tax. I believe the Mayor gave a potential option. Do you want to discuss that or deal with it as part of the motion?

Motion by Ald. Vitek, second by Stellato to approve an Ordinance Amending the Alcohol Tax Rate to 3% for B and C liquor licenses for the City of St. Charles.

Ald. Turner: Chris, where does the majority of our liquor tax come from?

Chris: Currently, about \$700,000 out of the \$1.2M comes from A licenses (package sales); B and C licenses are the taverns and restaurants in the community.

Ald. Turner: I understand where you're going with this but I also think the gentleman had a point. I don't think we should have eliminated our dining tax 14 or so years ago. Maybe we can eventually change to an alcohol and dining tax. It won't be 5%, but it will probably be more than 2%. At this point I would go with the 3% alcohol tax for all. We're not gaining anything by leaving out the A licenses. That's where a lot of people from the City do their shopping. They go to Jewel, Meijer, Binny's, buy their booze and take it home. We're getting their money. I can't support that.

Ald. Lewis: I say 3% across the board. We need to remember the reason for this tax. It's to help our infrastructure. Infrastructure is going to go on all over the City, not just downtown. It's going to help the infrastructure of the entire community. We need it for that purpose.

Ald. Stellato: What needs to happen is we need to vote on this motion and if it fails bring back a second motion, and amend that motion.

Chairman Bancroft: One of those two options.

Roll Call: Ayes: Vitek, Stellato; Nays: Turner, Gaugel, Lewis, Silkaitis, Payleitner, Lemke; Abstain: Bessner. Chairman Bancroft did not vote as Chair. **Motion Failed.**

Motion by Ald. Turner, second by Vitek to Approve an Ordinance Amending the Alcohol Tax Rate to 3% for the City of St. Charles.

Roll Call: Ayes: Turner, Vitek, Lewis, Stellato, Silkaitis, Payleitner, Lemke; Nays: Gaugel, Abstain: Bessner. Chairman Bancroft did not vote as Chair. **Motion Carried.**

Ald. Silkaitis: If passes at Council I would like to see what we actually collected. I want to see if it was worth it, or if it drops because we drove away business.

Chris: We'll make sure we pass that information along. Much like we do with video gaming.

c. Seeking a Recommendation to Approve an Ordinance Amending the Hotel Operators Occupation Tax Rate to 6% for the City of St. Charles.

Motion by Ald. Vitek, second by Turner to approve an Ordinance Amending the Hotel Operators Occupation Tax Rate to 6% for the City of St. Charles.

Roll Call: Ayes: Turner, Vitek, Bessner, Lewis, Stellato, Silkaitis, Payleitner; Nays: Gaugel, Lemke. Chairman Bancroft did not vote as Chair. **Motion Carried.**

Ald. Silkaitis: I would like to request the same information regarding this as well. I would like to know if our predictions are accurate.

Motion by Ald. Lemke, second by Bessner to move into executive session to discuss collective bargaining as permitted by 5 ILCS 120/2(c)(2).

Roll Call: Ayes: Turner, Gaugel, Vitek, Bessner, Lewis, Stellato, Silkaitis, Payleitner, Lemke; Nays: None. Chairman Bancroft did not vote as Chair. **Motion Carried.**

5. Executive Session

- Personnel – 5 ILCS 120/2(c)(1)
- Pending Litigation – 5 ILCS 120/2(c)(11)
- Probable or Imminent Litigation – 5 ILCS 120/2(c)(11)
- Property Acquisition – 5 ILCS 120/2(c)(5)
- Collective Bargaining – 5 ILCS 120/2(c)(2)
- Review of Executive Session Minutes – 5 ILCS 120/2(c)(21)

Motion by Ald. Lemke, second by Stellato to exit executive session at 9:42 pm.

6. Additional Items from Mayor, Council, Staff, or Citizens.

7. Adjournment

Motion by Ald. Stellato, second by Lemke to adjourn the meeting at 9:42 pm.