Committee of the Whole Memorandum

To: Committee of the Whole
From: Jim Culotta, City Administrator
Date: 11/13/17
Re: Revenue Enhancement Options – Road Improvements

BACKGROUND

The purpose of this analysis is to identify promising revenue enhancement options for maintenance of the City's 79.5-mile road network. It is not intended to be an exhaustive list of revenue options. The water and sewer funds are self-sustaining enterprise accounts, and as such, revenue for those improvements should be evaluated as a part of a separate rate and fee study.

The City would benefit from identifying dedicated revenue streams for road improvements. The State Motor Fuel Tax (MFT) is the only revenue source used consistently for roads. These monies are allocated to Illinois municipalities on the basis of population. Washington has received approximately $400,000 in State MFT each of the past two years. Revenue generated by the Telecommunications Tax ($283,909 last year) was used for road improvements between 2011 and 2014. However, this funding source has since been earmarked to finance the State mandated consolidation of 911 services.

This analysis was originally presented at the October 16th Finance & Personnel Committee. Following their discussion, the Committee directed staff to bring the analysis to the Committee of the Whole but to exclude the hotel/motel tax option.

OPTIONS ANALYSIS

As a home rule community, Washington has a fairly wide range of revenue options. The City utilizes a number of revenues in which the rates are controlled by the State, including the Personal Property Replacement Tax, Income Tax, Local Use Tax, State portion of the Sales Tax, and State Motor Fuel Tax.

An analysis of five revenues are featured as attachments. Two options involve increasing the rates of the following existing revenues: Home Rules Sales Tax and Telecommunications Tax. The other three options involve the creation of the following new revenues: Local Motor Fuel Tax, Food & Beverage Tax, and a Liquor Tax. In summary, the Home Rule Sales Tax, Food & Beverage Tax, and Local Motor Fuel Tax offer the greatest revenue generation potential.

OTHER EXISTING REVENUES

The following existing revenue options are also available to finance road improvements. They generally have limited revenue potential but may warrant additional consideration.

Special Assessment - The Illinois Municipal Code allows local governments to impose a special assessment on real property for the following purposes: Resurfacing Streets, Sidewalk Construction & Repair, and Drainage Construction & Repair (storm sewers, ditches, basins, etc.). According to City Code, the Board of Local Improvements, which consists of the Mayor and the chairs of the Public Works and Finance committees, must first make a recommendation to the City Council before the City Council may consider or pass an ordinance for special assessment. The amount of the assessment is dependent upon project cost and the City's desire to supplement funding with other sources. The City could develop a policy explaining under what circumstances a special assessment will be imposed. One of the benefits of utilizing Special Assessment is the properties that will benefit most from the improvement are helping to pay for the project. Some of the challenges are that Special Assessments have not been widely used in Washington and may be a financial strain, especially for those on fixed incomes. However, stretching the assessment payments over multiple years can make payment more manageable.

Tax Increment Financing – Washington has utilized TIF since 1986 and has one active district. TIF monies can be used for both private and public improvements, such as roads. The City has broad authority and can tailor the boundary to meet the need. However, the revenue potential for each TIF can vary significantly. Gaining approval from other taxing bodies can be a challenge and is critical to the revenue generation potential of a TIF district.

Franchise Fees – This is a locally administered annual fee imposed on utilities (i.e. electricity, natural gas), cable television, and solid waste providers. Franchise fees are typically set by multi-year agreements and some have limited revenue potential. Last year, the City received $428,158 from its four franchise agreements. There are currently no open agreements to pursue a franchise fee change. However, the City could request a revision to the Ameren electric utility franchise agreement next spring if the number of customers has increased by 3% or more since 2013. The fee amount would be revised by the percent change in customers. While the fee increase would likely be passed along to customers, it would be evenly applied to each customer.

OTHER NEW REVENUES

In addition to Local Motor Fuel Tax, Food & Beverage Tax, and a Liquor Tax, the following revenue sources are somewhat common among Illinois municipalities and may warrant additional research.

Business District Development & Redevelopment Sales Tax – This is a locally imposed and state administered tax imposed on sales of general merchandise in the form of the Business District Retailers' Occupation Tax and Business District Service Occupation Tax within a defined geographic area. The tax may be imposed in 0.25% increments and cannot exceed 1%. Revenue generation potential is directly tied to retail sales, making the utility of this tax somewhat limited. For example, imposing a 1% tax on businesses with a Freedom Parkway address could generate approximately $791,106 annually. Setting aside this revenue for a few years could help offset the cost to extend Freedom Drive to Cummings Lane. This tax targets the area that stands to benefit most from the improvements. Other benefits are that non-residents would also pay the tax and the improvements could foster additional economic growth (i.e. income & job growth). In order to enact this tax, the city must pass an ordinance imposing the tax by April 1st in order for it to become effective July 1st of the same year or by October 1st to become effective January 1st of the following year.

Stormwater Utility Fee - This is a locally administered fee typically imposed monthly as a flat fee or as a rate based upon the amount of impervious area on each parcel. Communities use this funding source for operation and capital expenses associated with stormwater management program. The following communities collect a monthly stormwater utility fee: Eureka ($6), Morton ($4.74), Normal ($4.60), Bloomington ($4.35), Rantoul ($3.45). One challenge in creating this new fee would be for the City to explain the necessity and benefit to residents and businesses. Stormwater is a more significant issue for older parts of the City that were built to different construction standards. Also, revenue growth could be diminished by new administrative costs. The benefit of a stormwater utility fee is that it would provide, for the first time, a dedicated revenue for these expenses, which will only grow as the current, undersized system ages.

Natural Gas Tax – This is a locally administered tax imposed on those in the business of distributing, supplying, furnishing, or selling natural gas for use or consumption (not for resale) within the corporate limits of the municipality. The rate cannot exceed 5 percent of gross receipts (8 percent in cities with populations greater than 500,000). The natural gas distribution lines utilize City right-of-way to serve their customers. This tax would ultimately be passed on to the customer, which may become a financial strain, especially for those on fixed incomes. Also, revenue growth could be diminished by new administrative costs.

Recently, I spoke with a vendor that could take on the collection administration of any city collected tax/fee. The cost for this service would not be borne by the city. Instead, the collection vendor would charge a 2% administrative fee to the tax/fee payer. Staff could research this option further if Council desires.

Lastly, an example of a pavement management program is attached to help provide context to the discussion.

ATTACHED

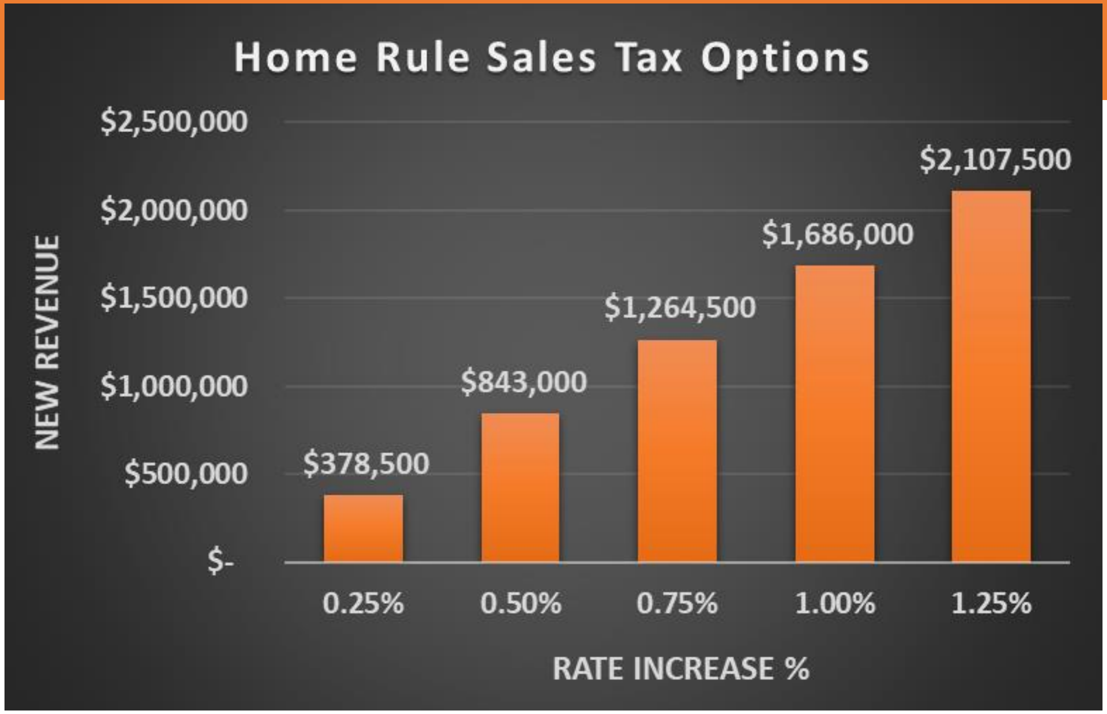
1. Five Featured Revenue Options
2. Pavement Management Program Example

HOME RULE SALES TAX

The home rule sales tax is set by the City and is one part of the total sales tax rate imposed on general merchandise. The City's home rule sales tax is currently 1.25% of the total sales tax rate of 8%. This state administered tax must be imposed in 0.25% increments.

Washington's home rule rate is 0.50% below the average rate for home rule communities in Central Illinois. Washington also has the lowest total sales tax rate (8%) among home rule communities in the area. The average total sales tax rate is 8.75%.

The chart below illustrates five rate increase options and the corresponding estimates of new revenue potential. This tax has very strong revenue generation potential. Raising the home rule sales tax rate by 0.50% to the home rule average in the area (1.75%) would generate an estimated $843,000 in new revenue. Another benefit of this option is non-residents would help contribute to this revenue stream, which reduces the financial burden of road projects for City residents. To enact this tax, the city must pass an ordinance that imposes the tax by April 1st in order for it to become effective July 1st of the same year or by October 1st to become effective January 1st of the following year.

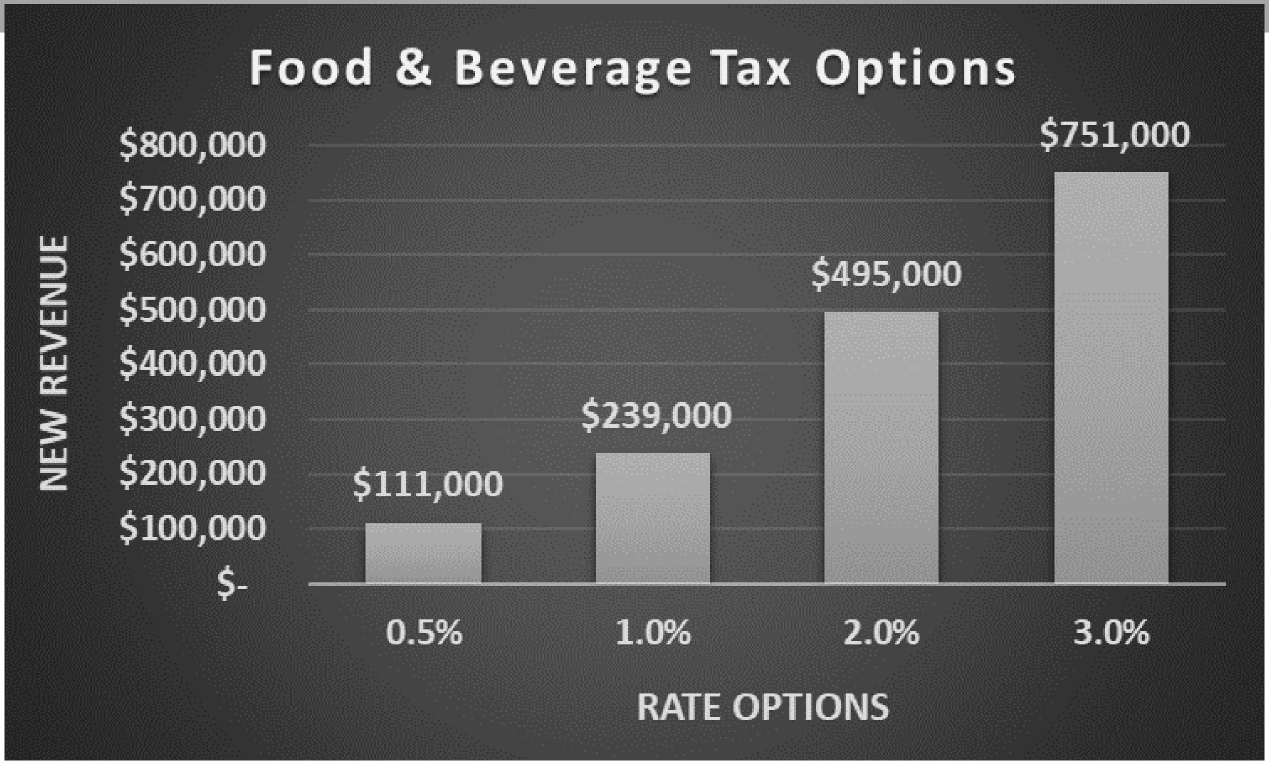


FOOD & BEVERAGE TAX

Home rule communities are allowed to impose a tax on the sale of all food and beverages (alcoholic and nonalcoholic) that is prepared for immediate consumption (which may be consumed on and/or off the premises). This is a locally administered tax. Based on information from Pekin, it would take Washington approximately 18 hours per month to administer a food & beverage tax.

Although Washington does not, most home rule communities in Central Illinois impose a food & beverage tax. The rates imposed are as follows: Peoria Heights (2%), Pekin (2%), Peoria (2%), Galesburg (2%), Decatur (2%), Normal (2%), Bloomington (2%), Danville (1%), Urbana (1%).

The chart below illustrates four rate increase options and the corresponding estimates of new revenue potential. This tax has strong revenue generation potential. Establishing a food & beverage tax at 2% would generate an estimated $495,000 in new revenue. However, this revenue would be somewhat reduced due to new administrative costs.

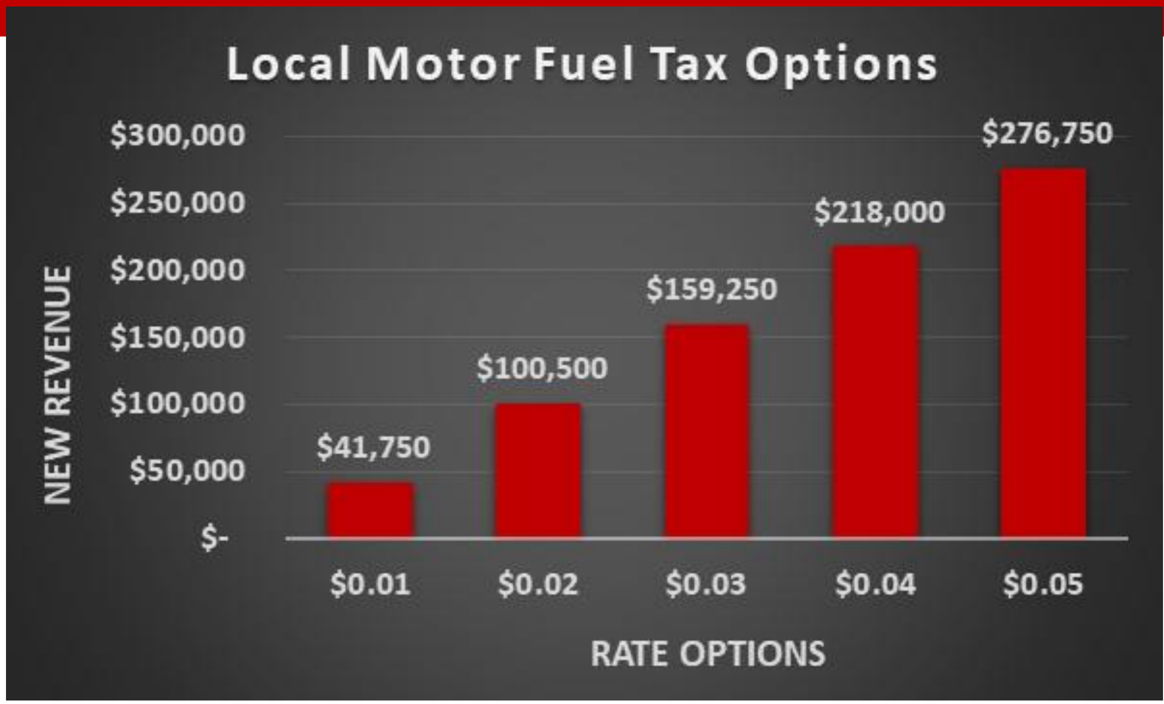


LOCAL MOTOR FUEL TAX

The Local Motor Fuel Tax (MFT) may be imposed by home rule communities on retail motor fuel purchases. Unlike the State motor fuel tax, any local government that imposes a Local MFT is responsible for administering that tax. Based on information from Pekin, it would take Washington approximately nine hours per month to administer a Local MFT.

Currently, Washington is one of only two home rule communities in Central Illinois that does not impose a Local MFT. Most communities that impose this tax apply a rate of $0.04 per gallon.

The chart below illustrates five rate increase options and the corresponding estimates of new revenue potential. This tax has strong revenue generation potential. Establishing a Local MFT at the regional average of $0.04 would generate an estimated $218,000 in new revenue. A benefit of this tax is at least some of the revenue would come from non-residents, reducing the burden on residents to finance road improvements. However, this revenue would be somewhat reduced due to new administrative costs.

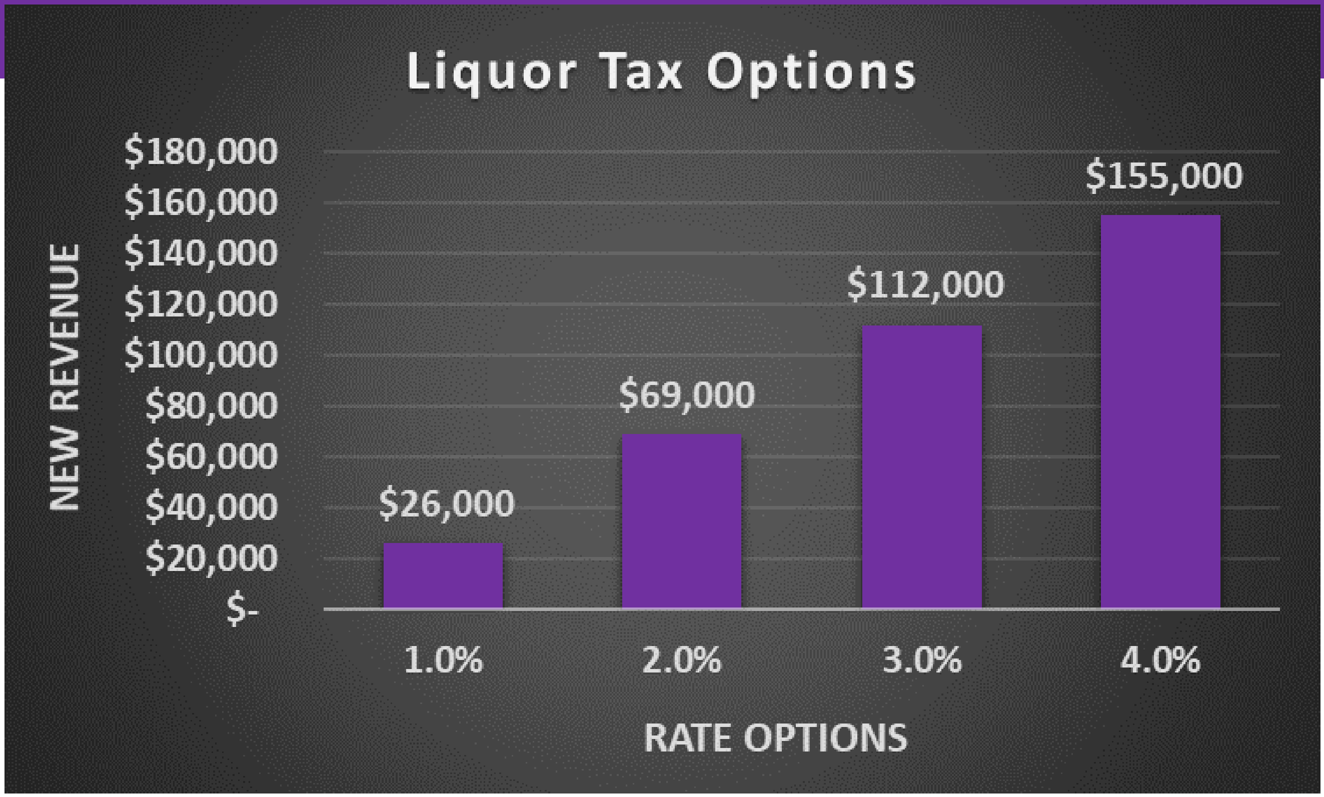


LIQUOR TAX

Home rule communities are allowed to impose a tax on all packaged liquor sales. This tax is locally administered. Based on information from Pekin, it would take Washington approximately nine hours per month to administer a liquor tax.

Although Washington does not, some home rule communities in the area impose a liquor tax. The following communities collect a liquor tax: Pekin (1%), Danville (3%), Normal (4%), Bloomington (4%), Urbana (1%).

The chart below illustrates four rate increase options and the corresponding estimates of new revenue potential. This tax has moderate revenue generation potential. Establishing a packaged liquor tax at 2%, for example, would generate an estimated $69,000 in new revenue. However, this revenue would be somewhat reduced due to new administrative costs.

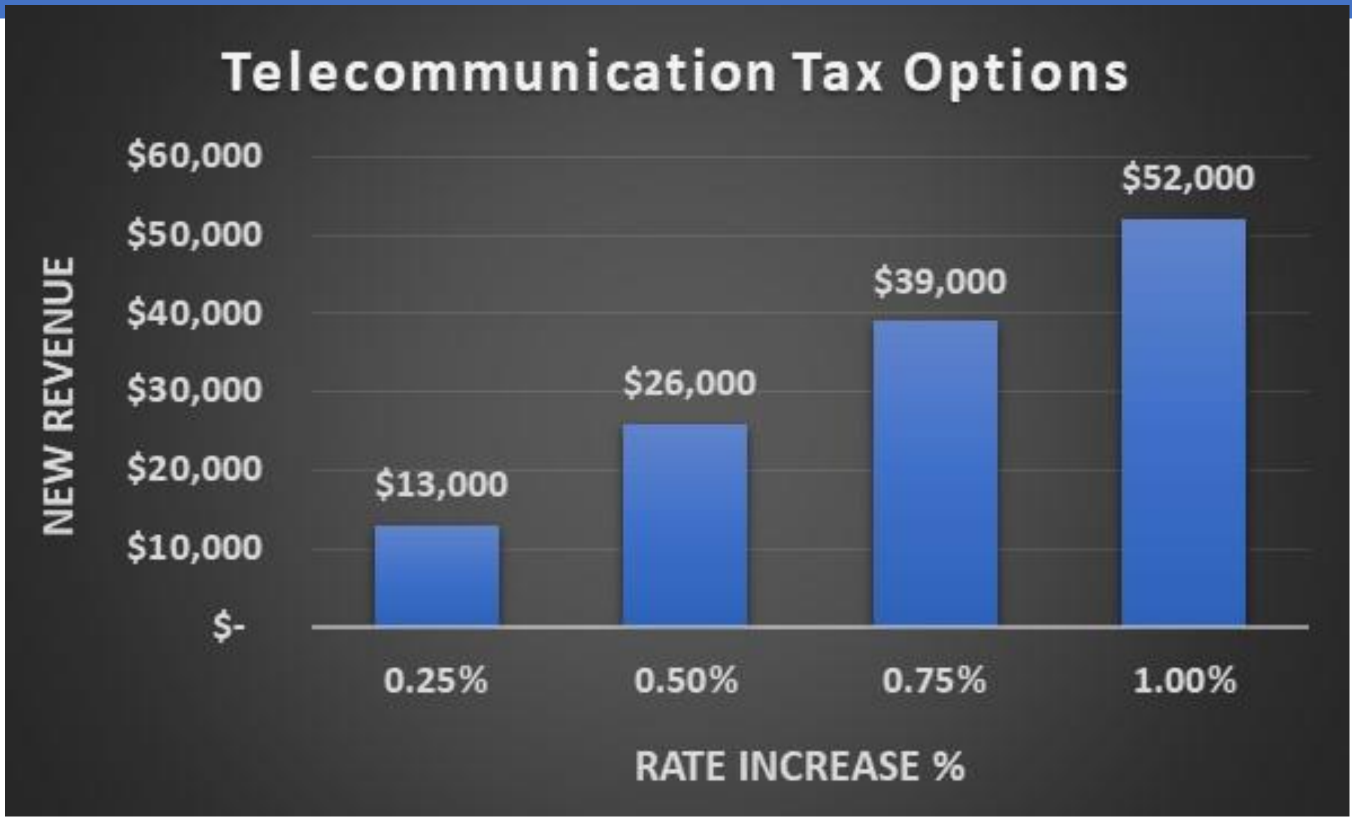


TELECOMMUNICATIONS TAX

This state administered tax is imposed upon LAN lines, cellular phones, pagers, stationary two-way radios, etc. The current total telecommunications tax rate is 12%, consisting of the state portion (7%) and the City's locally imposed portion (5%). The maximum allowed for the locally imposed portion is 6%.

Currently, Washington is one of only five home rule communities in Central Illinois that has not maximized this revenue opportunity.

The chart below illustrates four rate increase options and the corresponding estimates of new revenue potential. Raising the telecommunication tax rate 1% from 5% to the 6% maximum would generate only an estimated $52,000 in new revenue. However, no additional administrative costs would be incurred by increasing this tax rate.



Pavement Management Program

It is not uncommon for communities to establish a pavement management program in order to help identify revenue targets that would allow the City to meet its road improvement goals. The table below is an example of such a plan and was created by Public Works Director Andrews as a part of the draft five-year capital improvement plan. It may be beneficial for the Public Works Committee to consider a pavement management program and offer a recommendation.

Example Pavement Management Program

Type	Frequency	Miles/Year	Annual Cost
Seal Coat	Once every 7 years	10.7 miles	$700,000
Mill & Repave	Once every 21 years	3.5 miles	$950,000
Reconstruction	Once every 40-60 yrs for concrete & high volume asphalt Once every 63 - 84 years for residential asphalt	0.9 - 1.2 miles	$1.03 mil - $1.60 mil
		TOTAL ANNUAL COST	**$2.68 mil - $3.25 mil**