



CITY OF URBANA, ILLINOIS
FINANCE DEPARTMENT

MEMORANDUM

TO: Mayor Prussing and City Council Members
FROM: Elizabeth Hannan, Finance Director
DATE: May 7, 2014
SUBJECT: **Ordinances Increasing Various Revenues**

Introduction: Attached are two Ordinances increasing various revenues. The first Ordinance increases the local motor fuel tax, the hotel / motel tax, and the natural gas use tax. The second increases the food and beverage tax. The second Ordinance is presented separately so that a Council Member who may have a conflict of interest may recuse himself from consideration of this specific item.

Background: In preparation for development of the annual budget, staff reviewed the City's financial situation and discussed potential strategies for balancing the budget with the Mayor and Council Members. The strategy recommended by the Mayor is to use a combination of revenue increases and expenditure reductions, over a two year period, to rebalance the budget. Specifically, the plan is to increase revenues by \$1 million for FY2015/16 and decrease expenditures by \$500,000. Additional revenue increases and expenditure reductions of \$1 million total will likely be required in FY2016/17.

Specific revenue increases included in the attached Ordinances are –

Local Motor Fuel Tax: A one-cent per gallon increase in the local motor fuel tax is expected to generate about \$180,000 annually. Because the General Operating Fund can no longer sustain the same level of support for capital improvements, this increase will allow Public Works to continue to provide the same level of transportation improvements. Some projects that had been planned in the Capital Improvement Fund will instead be funded from the Local Motor Fuel Tax Fund.

This increase will affect both residents and visitors who purchase gasoline in the City of Urbana, so that some of the burden of paying for transportation improvements will be shared by non-residents who use roads maintained by the City. Urbana's local motor fuel tax rate will be a total of 5-cents per gallon, which is 1-cent higher than in the City of Champaign. Because the retail price of gasoline tends to fluctuate, sometimes from day-to-day, it is unlikely that consumers will choose to purchase fuel at locations outside the City of Urbana to avoid paying the additional 1-

cent tax. The additional cost for a 15-gallon fuel purchase would be 15-cents.

Food & Beverage Tax: A one-half percent increase in the food and beverage tax is expected to generate \$370,000 annually in the General Operating Fund. This tax will be imposed on both residents and visitors who purchase prepared foods and liquor for immediate consumption.

This tax is likely to have the greatest impact on residents and visitors with higher incomes who are more likely to dine out. The total food and beverage tax will be one percent, which is applied in addition to sales tax, for a total tax of 10% of prepared food and beverages. This would be an additional tax of 10-cents on a \$20 bill for dining out. The total tax on prepared food and beverages in Champaign is 9.5%.

Hotel / Motel Tax: The hotel / motel tax would be increased by 1% to a total of 7% of the rental charge. This increase is expected to generate \$166,000 annually and generally affects visitors to the community. This is unlikely to impact Urbana residents. The additional cost on a \$100 rental charge would be \$1 per night. The hotel / motel tax in Champaign is 5% of the rental charge.

Natural Gas Use Tax: The natural gas use tax would increase from 3.5 cents per therm to 5-cents per therm. This tax is applied to large utility customers that purchase natural gas wholesale from out of state suppliers and are not subject to the utility tax. The increase is expected to generate \$142,000 annually. This will affect approximately a dozen large utility customers. However, because the tax is actually remitted by Ameren – they deliver the gas to local customers regardless of purchase arrangements – staff does not have specific information on customers affected. This increase will have no impact on a typical resident of the City of Urbana.

Fiscal Impact: The combined effect of these changes is an increase of \$858,000 in revenue. \$678,000 of that total will be revenue in the General Operating Fund, which provides basic City services, such as police and fire protection. \$180,000 will be revenue in the Local Motor Fuel Tax Fund, which will offset decreased funding for capital improvements from the General Operating Fund. In addition, the City Council will consider changes in the fee schedule on June 1 – those changes increase revenues by \$125,000 in the General Operating Fund.

These options are preferable to increasing the City's property tax to fund basic City services. The City has maintained a relatively low tax rate to compensate for tax rate increases that occurred in overlapping tax districts due to the loss in assessed value resulting from the charitable exemption for hospitals. In fact, the City's tax rate decreased by nearly one-cent for the levy that was recently extended. Any increase in the City's tax rate would place the burden fully on Urbana property owners, while the options offered here place a portion of that burden on others that use City services.

These revenue increases do not address potential reductions in the state-shared income tax revenue, which could reduce General Fund revenues by as much as \$2 million annually. Further adjustments to the budget may be required, depending on the final budget approved by the Illinois Legislature.

Recommendation: Approve these Ordinances increasing various revenues effective August 1, 2015.

ORDINANCE NO. 2015-05-049

AN ORDINANCE AMENDING URBANA CITY CODE CHAPTER 22, SECTIONS 22-31,
22-45.1, AND 22-61

(Local motor fuel tax, municipal gas use tax, and hotel/motel use tax / 2015)

WHEREAS, the City of Urbana ("City") is a home rule unit of local government pursuant to Article VII, Section 6, of the Illinois Constitution, 1970, and may exercise any power and perform any function pertaining to its government and affairs, including the power to tax; and

WHEREAS, the City Council heretofore has enacted Urbana City Code Section 22-31 to levy and impose a tax upon the purchase of each gallon of motor fuel, or fraction thereof, sold at retail within the corporate limits of the City at the rate of four cents (\$0.04) per gallon; and

WHEREAS, the City Council finds that the fiscal needs of the City require an increase in the rate of that tax to five cents (\$0.05) per gallon; and

WHEREAS, the City Council heretofore has enacted Urbana City Code Section 22-45.1 to levy and impose a tax upon the privilege of using or consuming gas in the City that is purchased in a sale at retail at the rate of 3.5 cents (\$0.035) per therm, except as provided therein; and

WHEREAS, the City Council finds that the fiscal needs of the City require an increase in the rate of that tax to five cents (\$0.05) per therm; and

WHEREAS, the City Council heretofore has enacted Urbana City Code Section 22-61 to levy and impose a tax upon the use and privilege of renting a hotel or motel room within the City at the rate of six (6) percent of the rental or leasing charge for each such hotel and motel room rented for each twenty-four-hour period or any portion thereof, except as provided therein; and

WHEREAS, the City Council finds that the fiscal needs of the City require an increase in the rate of that tax to seven (7) percent of the rental or leasing charge for each such hotel and motel room rented for each twenty-four-hour period or any portion thereof.

NOW, THEREFORE, BE IT ORDAINED by the City Council of the City of Urbana, Champaign County, Illinois, as follows:

Section 1.

Urbana City Code Chapter 22, "Taxation," Article III, "Local Motor Fuel Tax," Section 22-31, "Tax imposed," subsection (a), is hereby amended with the underlined text indicating new language and the strikethrough text indicating deletions as follows:

Sec. 22-31. - Tax imposed.

- (a) There is levied and imposed upon the purchase of each gallon of motor fuel, or fraction thereof, sold at retail within the corporate limits of the city, irrespective of the unit of measure in which it is actually sold, a tax at the rate of five cents (\$0.05) ~~four cents (\$0.04)~~ per gallon.

Section 2.

Urbana City Code Chapter 22, "Taxation," Article IV, "Municipal Utility Tax," Section 22-45.1, "Municipal gas use tax," subsection (c)(1) is hereby amended with the underlined text indicating new language and the strikethrough text indicating deletions as follows:

(c) Tax.

- (1) Except as otherwise provided, a tax is imposed on the privilege of using or consuming gas in the city that is purchased in a sale at retail at the rate of five cents (\$0.05) ~~\$03.5-cent(s)~~ per therm.

Section 3.

Urbana City Code Chapter 22, "Taxation," Article V, "Hotel/Motel Use Tax," Section 22-61, "Tax," subsection (a) is hereby amended with the underlined text indicating new language and the strikethrough text indicating deletions as follows:

Sec. 22-61. - Tax.

- (a) There is hereby levied and imposed upon the use and privilege of renting a hotel or motel room within the city a tax of seven (7) ~~six (6)~~ percent of the rental or leasing charge for each such hotel and motel room rented for each twenty-four-hour period or any portion thereof; provided, however, that the tax shall not be levied and imposed upon any person to rent a hotel or motel room for more than thirty (30) consecutive days who works or lives in the same hotel or motel.

Section 4.

Upon approval of this Ordinance, the City Clerk is directed to mail a certified copy to Ameren Illinois, CAD, 300 Liberty Street, Peoria, IL 61602.

Section 5.

Those sections, paragraphs, and provisions of the Urbana City Code that are not expressly amended or repealed by this Ordinance are hereby re-enacted, and it is expressly declared to be the intention of this Ordinance not to repeal or amend any portions of the Urbana City Code other than those expressly set forth as amended or repealed in this Ordinance. The invalidity of any section or provision of this Ordinance hereby passed and approved shall not invalidate other sections or provisions thereof.

Section 6.

This Ordinance shall not be construed to affect any suit or proceeding pending in any court, or any rights acquired, or a liability incurred, or any cause or causes of action acquired or existing prior to the effective date of this Ordinance; nor shall any right or remedy of any character be lost, impaired, or

affected by this Ordinance.

Section 7.

The City Clerk is directed to publish this Ordinance in pamphlet form by authority of the corporate authorities, and this Ordinance shall be in full force and effect from and after its passage and publication in accordance with Section 1-2-4 of the Illinois Municipal Code or on August 1, 2015, whichever occurs later.

This Ordinance is hereby passed by the affirmative vote, the "ayes" and "nays" being called, of a majority of the members of the Council of the City of Urbana, Illinois, at a meeting of said Council.

PASSED BY THE CITY COUNCIL this ____ day of _____, _____.

AYES:

NAYS:

ABSENT:

ABSTAINED:

Phyllis D. Clark, City Clerk

APPROVED BY THE MAYOR this ____ day of _____, _____.

Laurel Lunt Prussing, Mayor

ORDINANCE NO. 2015-05-050

AN ORDINANCE AMENDING URBANA CITY CODE CHAPTER 22, SECTION 22-91

(Tax on purchase of prepared food and certain alcoholic liquor / 2015)

WHEREAS, the City of Urbana ("City") is a home rule unit of local government pursuant to Article VII, Section 6, of the Illinois Constitution, 1970, and may exercise any power and perform any function pertaining to its government and affairs, including the power to tax; and

WHEREAS, the City Council heretofore has enacted Urbana City Code Section 22-91, *inter alia*, to levy and impose a tax upon the privilege of purchasing prepared food for immediate consumption or alcoholic liquor, excluding packaged liquor, at the rate of one-half ($\frac{1}{2}$) of one (1) percent of the purchase price, exclusive of any other tax, charged for such food or alcoholic liquor; and

WHEREAS, the City Council finds that the fiscal needs of the City require an increase in the rate of that tax to one (1) percent of the purchase price charged for such food or alcoholic liquor.

NOW, THEREFORE, BE IT ORDAINED by the City Council of the City of Urbana, Champaign County, Illinois, as follows:

Section 1.

Urbana City Code Chapter 22, "Taxation," Article VII, "Privilege Tax on Purchase of Prepared Food for Immediate Consumption and Certain Alcoholic Liquor," Section 22-91, "Tax," subsection (a), is hereby amended with the strikethrough text indicating deletions as follows:

Sec. 22-91. - Tax.

- (a) A tax, in addition to all other taxes, is hereby levied and imposed upon the privilege of purchasing alcoholic liquor in original packages or containers at the rate of one (1) percent of the purchase price, exclusive of any other tax, charged for such alcoholic liquor. A tax, in addition to all other taxes, is hereby levied and imposed upon the privilege of purchasing prepared food for immediate consumption or all other alcoholic liquor, excluding packaged liquor, at the rate of ~~one-half ($\frac{1}{2}$) of one (1)~~ percent of the purchase price, exclusive of any other tax, charged for such food or alcoholic liquor.

Section 2.

Those sections, paragraphs, and provisions of the Urbana City Code that are not expressly amended or repealed by this Ordinance are hereby re-enacted, and it is expressly declared to be the intention of this Ordinance not to repeal or amend any portions of the Urbana City Code other than those expressly set forth as amended or repealed in this Ordinance. The invalidity of any section or provision of this Ordinance hereby passed and approved shall not invalidate other sections or provisions thereof.

Section 3.

This Ordinance shall not be construed to affect any suit or proceeding pending in any court, or any rights acquired, or a liability incurred, or any cause or causes of action acquired or existing prior to the effective date of this Ordinance; nor shall any right or remedy of any character be lost, impaired, or affected by this Ordinance.

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PASSED BY THE CITY COUNCIL this ____ day of _____, _____.

AYES:

NAYS:

ABSENT:

ABSTAINED:

Phyllis D. Clark, City Clerk

APPROVED BY THE MAYOR this ____ day of _____, _____.

Laurel Lunt Prussing, Mayor