



MEMORANDUM

TO: Council members and Mayor Prussing

FROM: Mike Monson, chief of staff

DATE: July 1, 2010

RE: Other downstate cities with a local Motor Fuel Tax

Below are summaries of other downstate cities that have already enacted a local motor fuel tax and what their experience has been in terms of income generated, the effect on gas prices and other issues, as related by city officials in those communities.

Pekin: City Manager Dennis Kief said this community of 34,000, near Peoria, enacted a 4-cent per gallon local motor fuel tax in 1994. The tax applies to gasoline as well as diesel fuel, E-85 ethanol and bulk purchases. The local MTF tax generates about \$600,000 annually, compared to the \$900,000 Pekin receives in state motor fuel tax income. The state MFT is distributed based on population.

The impetus for the local motor fuel tax came from a city transportation committee, organized by the Pekin Chamber of Commerce, that suggested and endorsed such a tax.

Tax proceeds are spent as follows:

- 25 percent to street maintenance.
- 25 percent to the general fund
- 50 percent to a specific, long-term project: Veteran's Drive.

Kief explained that Veteran's Drive is a 13-mile project to connect Pekin to Interstate 474. Currently, no interstate runs through Pekin, he said.

Since 1994, 2.5 miles of Veteran's Drive has been constructed. Last year, Pekin received \$30 million in the state capital bill to construct another four-mile section. Pekin has also been awarded \$4.8 million in federal funding toward the project.

"It (the local MFT) has worked," he said.

Having the local motor fuel tax to provide matching funds for state or federal grant dollars has allowed as many as 20 road projects to be completed in the past 16 years, besides Veteran's Drive, Kief said.

When the tax was first proposed, the owners of a couple local gas stations protested vehemently, Kief said, but he said those stations remain in business.

He said gas prices are about the same in Pekin as in Peoria (which has a 2-cent local MFT) and as in North Pekin, Marquette Heights, Creve Coeur and East Peoria, none of which have a local MFT.

Danville: City Public Works Director Doug Ahrens said Danville first approved a 1-cent local motor fuel tax in March 2004. The tax now stands at 5.6-cents per gallon due to an annual escalator clause included in the city ordinance. Diesel fuel is taxed at a rate of 2.3-cents per gallon. Bulk or wholesale sales are not taxed by the city, nor are sales of E-85.

Danville, a city of 33,000, expects to collect \$902,000 from the local motor fuel tax this fiscal year, compared to a projected \$890,000 in state motor fuel taxes.

Ahrens said the local MFT income goes into a special enterprise fund called the infrastructure improvement fund and is spent entirely on projects, with no money going toward city salaries. Projects funded by the local MFT are identified by signs, so that residents know their tax dollars are being put to work, he said.

Diesel fuel tax receipts go into a separate fund set aside for road projects that assist economic development projects, Ahrens added.

Ahrens said the tax was proposed because Danville is a large city geographically, with 187 miles of roadway, and its roads were rapidly falling into disrepair. The city was suffering because state motor fuel tax funds are distributed based on population, and Danville saw its population decline by over 10,000 residents compared to a few decades ago.

“We had support in the community (for the local tax),” he said. “People realized the roads needed to be fixed.”

A concern at the time the tax was enacted was that people would drive into nearby Indiana to buy gasoline. But there has not been a fall-off in Danville sales, except the widespread reduction in gas use that occurred nationwide a few years ago as prices increased to the \$4 per gallon level, Ahrens said.

“User fees are the fairest way to have services provided by the public sector,” Ahrens said. “The people using the services should pay for the bulk of them.”

Tilton: A village of about 3,000 residents abutting Danville, Tilton first enacted a gasoline tax of 3 cents per gallon about the same time that Danville did, in 2004. The motor fuel tax was later raised to 5 cents per gallon, he said.

Last month, the Tilton Village Board voted to increase its gasoline tax to 7 cents per gallon. But Mayor David Phillips said that decision will likely be reversed at the July 17 meeting and, instead, a new tax of 3 cents per gallon will be applied to diesel fuel, which the village currently does not tax.

Phillips said Tilton collects about \$110,000 annually from its local motor fuel tax. He said he isn't sure how much in additional income a tax on diesel fuel would generate. Also, Tilton currently taxes sales of E-85 ethanol, but does not tax bulk sales.

The village has been using tax proceeds to pay for public works trucks and equipment, he said. Phillips noted that the village of Tilton does not levy for property taxes.

Phillips said Tilton has two gas stations and that prices charged by those stations are consistently higher than the prices charged in Danville.

Galesburg: City Public Works Director Larry Cox said Galesburg, a city of about 30,000 residents, first enacted a 1-cent per gallon local MFT in the mid-1980s. The city also had a wheel tax at the time where residents had to buy a sticker for their car from the city. In 2000, the city council eliminated the wheel tax, which was unpopular, and increased the local motor fuel tax to 2.5-cents per gallon. The tax applies to gasoline, diesel fuel, E-85 and bulk sales.

The local motor fuel tax generates \$390,000 annually for Galesburg, compared to the \$840,000 the city gets in MFT from the state. Galesburg has 160 miles of streets to maintain.

“Most of it is spent on maintenance projects,” said Cox. “We have done some complete (street) reconstructions.”

Cox said gas prices at stations outside of Galesburg are the same or even higher than gas prices in town, despite the local tax. And the local motor fuel tax allows the city to collect tax income from nonresidents who gas up in Galesburg, he said.

Carbondale: According to Carbondale Comptroller Ernie Tessone, the city of 25,000 residents first implemented a 1-cent motor fuel tax in 1986. The tax was increased to 2-cents per gallon in 1992 and to the current 3-cent level in 2005. The 3-cent tax generated \$409,000 in fiscal 2009 for the city, home to Southern Illinois University. That figure was down substantially from fiscal 2008, when the city collected \$494,000. The city's local motor fuel tax also applies to sales of diesel fuel, E-85 and to bulk sales.

Carbondale collected \$667,000 in motor fuel tax money from the state in fiscal 2009.

“We find our (gas) stations are just as competitive (in price) as stations in Carterville and Murphysboro,” even though those cities don’t have a local motor fuel tax , Tessone said.

Carbondale Mayor Brad Cole said the local motor fuel tax income “has been very valuable to us.”

“We had a lot of oil and chip roads and we’ve resurfaced them with asphalt,” he said. “We’ve had three or four street reconstructions.”

Peoria: The city of Peoria enacted its 2-cent local motor fuel tax in January 1995, according to Comptroller Jim Scroggins. The city collected \$764,000 from the local motor fuel tax during the 2009 calendar year. However, the amount Peoria has been collecting has been declining, as the city collected \$893,000 in 2007 and \$855,000 in calendar 2008, he said.

A city of 121,000 residents, Peoria expects to collect nearly \$3.4 million in calendar 2010 from the state motor fuel tax.

Peoria’s local tax applies also to diesel fuel, E-85 and bulk sales.

Scroggins said he has not seen a major competitive disadvantage from Peoria’s local motor fuel tax. He said gas prices might be slightly cheaper in East Peoria, on the opposite side of the Illinois River from Peoria, but that most drivers won’t go out of their way to drive to East Peoria.

Downstate cities with local MFT	Local MFT rate	Includes diesel fuel?	Includes E-85 (ethanol)?	Includes bulk sales?	Annual income generated	Income per penny of tax
Pekin	4 cents	yes	yes	yes	\$600,000	\$150,000
Danville	5.6 cents	2.3 cents	no	no	\$902,000	\$161,000
Tilton	5 cents	Proposed 3 cents	yes	no	\$110,000	\$22,000
Galesburg	2.5 cents	yes	yes	yes	\$390,000	\$156,000
Carbondale	3 cents	yes	yes	yes	\$409,000	\$136,000
Peoria	2 cents	yes	yes	yes	\$764,000	\$382,000