

VILLAGE OF HOMEWOOD



BOARD AGENDA MEMORANDUM

DATE OF MEETING: August 26, 2025

To: Village President and Board of Trustees

Through: Napoleon Haney, Village Manager

From: Amy Zukowski, Finance Director

Topic: Non-Home Rule Local Sales Tax

PURPOSE

On August 5, 2024, Illinois Governor J.B. Pritzker signed legislation allowing non-home rule municipalities the ability to establish a local sales tax of up to 1% by ordinance, without the need for referendum approval.

Staff is requesting the Village Board consider the implementation of this tax. This agenda item provides opportunity for Board discussion, questions, and direction to staff related to the implementation of a 1% non-home rule sales tax. If the Board desires to move forward with this implementation, an ordinance would be brought to the September 9, 2025 Board meeting for approval, and the tax would go into effect on January 1, 2026.

BACKGROUND

Home Rule vs. Non-Home Rule

In Illinois, municipalities with a population of less than 25,000 are considered non-home rule communities, unless they successfully pass a referendum to become home rule. Homewood, along with Flossmoor, Olympia Fields, and Frankfort, are four (4) of the forty-five (45) municipalities in the south suburban region of Chicago that are non-home rule.

Non-Home Rule Limitations

Among the many limiting abilities that the *non-home rule designation* places on communities is the limited ability to generate more diverse revenue streams for municipal operations and initiatives. Home rule communities historically are able to create ordinances, rules, fines, taxes, and fees which target unacceptable behaviors that create negative community and neighborhood issues.

Current Operating Budget

Homewood has a \$27.7M operating budget. This \$27.7M is the amount required to successfully fund all of the staff, services, processes, purchases, and repairs, for the Village of Homewood.

Property Taxes and the Operating Budget

Because Homewood is a “non-home rule” community, Homewood is “limited” or “capped” by State statute on the amount we can request from our property owners. Homewood makes the request via ordinance which “levies” a tax on property. Homewood receives roughly **\$7.254M** in property tax revenue.

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This translates to **11 cents of every dollar** paid in property taxes goes to the Village of Homewood. In practical terms, 11 cents of each property tax dollar affords Homewood the ability to provide the staff, services (*police, fire, public works*), processes, purchases, and repairs that make Homewood a great community. In contrast, the Village of Park Forest receives roughly 40 cents of every dollar paid by property owners.

Although Homewood only receives 11 cents of every property tax dollar, there are other taxing districts that are more reliant on property taxes. Taxing districts, like school districts, rely heavily on property taxes to fund their operations. Homewood is known for its amazing and high-performing elementary schools, middle school, and high school. These schools must be well funded and resourced to attain and retain their exceptional standards and outcomes. More importantly, unlike the Village of Homewood, schools are primarily dependent on property taxes to fund their operations.

Property Taxes – Important, But Not Enough

Of the \$7.254M received from Homewood's property tax levy, \$747,000 is obligated to pay the principal and interest on a small bond, which will be fully paid off in three years. This leaves roughly \$6.5M available for Village operations. Of this \$6.5M remaining amount, \$4M is allocated directly to police and fire pensions, as well as non-public safety retirement funding. The remaining **\$2.5M** is then directed to the Village's General Fund, which helps to support 9% of the \$27.7M operating budget. By contrast, Homewood's portion of the State's sales tax equates to \$6.2M or 22% of the Village's \$27.7M operating budget.

Sales Tax and its Importance to Homewood

Of the various revenue streams that Homewood receives and uses to pay for the very costly and expensive services that our residents demand, sales tax revenue is the most weighted piece of the funding puzzle. Contrary to popular belief, it is sales taxes, NOT property taxes, that successfully fund Homewood's many services and amenities.

What is the non-home rule sales tax?

The non-home rule municipal sales tax is imposed by the municipality in the form of the Non-Home Rule Municipal Retailers' Occupation Tax and Non-Home Rule Municipal Service Occupation Tax. The tax is imposed upon all persons engaged in the business of selling tangible personal property at retail in their jurisdiction. Non-home rule local sales tax does not apply to:

- items that must be titled or registered with an agency of Illinois State or Illinois government agency, such as cars or trucks.
- prepared food purchases (restaurants, fast food, sandwich shops, etc).
- sale of groceries, prescription and non-prescription drugs, and medical appliances.

In Illinois, sales tax is a combination of several taxes applied to the sale and use of tangible personal property. It includes the State's base sales tax rate of 6.25%, along with additional local taxes imposed by counties, municipalities, and special districts. These local add-on taxes (*specifically, a home rule sales tax*) can vary, resulting in different total sales tax rates for different municipalities. Although Homewood's

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sales tax rate is currently 9%, it is important to note that the Village currently only receives 1% of the 9% sales tax. The State of Illinois “shares” 1% of their collected sales tax with Homewood. Homewood’s 9% tax rate is broken down by the following:

- Cook County Home Rule Tax 1.750%
- Regional Transit Authority (RTA) Tax 1.000%
- State’s Base Sales Tax 6.250%

In contrast, Matteson is a home-rule community with a sales tax rate of 10.000%. Matteson also receives 1% of the State-collected sales tax, but Matteson also imposed a 1% home-rule sales tax.

- Cook County Home Rule Tax 1.750%
- Matteson Home Rule Tax 1.000%
- Regional Transit Authority (RTA) Tax 1.000%
- State’s Base Sales Tax 6.250%

New Revenue Opportunity

Legislation was signed on August 5, 2024, giving non-home rule communities the ability to pass an ordinance establishing up to a 1% local sales tax. Prior to the legislation, non-home rule municipalities were required have a successful referendum to enact the 1% local sales tax. Many municipalities across the State of Illinois, including numerous south suburban communities, have implemented this “local sales tax,” regardless of whether they are home rule or non-home rule.

Sales Tax Rate Comparisons of Surrounding Communities

Since nearby municipalities have similar and even higher sales tax rates, this additional 1% local sales tax should not put our businesses at a disadvantage. Because the sales tax rates in the south suburbs have been similar for years, consumer shopping may be more dependent on the consumer’s “proximity to merchandise” than on the sales tax rate.

The south suburban communities that have enacted this local sales tax include: Flossmoor, Olympia Fields, Tinley Park, Orland Park, Chicago Heights, Country Club Hills, Glenwood, Hazel Crest, and Park Forest. Listed below are many nearby communities and their sale tax rates. For comparison sake, Homewood’s current sales tax rate is 9%. Should Homewood implement the 1% Non-Home Rule sales tax, our sales tax rate would be **10%** exactly aligning Homewood with our neighboring and surrounding municipalities.

Average Rate - The average of all sales tax rates within Home-Rule “Cook County” municipalities is 10%.

Sales Tax Rates in Home-Rule Communities			
Community	Sales Tax Rate	Community	Sales Tax Rate
Calumet City	10%	New Lenox	9%
Chicago Heights	10%	Oak Forest	10%
Country Club Hills	10.25%	Orland Park	10.25% (Cook County)
Dolton	9.75%	Orland Park	8.25% (Will County)
East Hazel Crest	9.5%	Park Forest	9% (Cook County)
Glenwood	10%	Park Forest	7% (Will County)
Harvey	10.5%	Richton Park	10%

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Harvey - Dixie Highway Business District	11.5%	South Holland	9.50%
Hazel Crest	10%	Thornton	10%
Markham	10%	Tinley Park	9.75% (Cook County)
Matteson	10% (Cook County)	Tinley Park	7.75% (Will County)
Matteson	8% (Will County)		

Average Rate - The average of all sales tax rates within **Non-Home-Rule** “Cook County” municipalities is 10%.

Sales Tax Rates in Non-Home Rule Communities			
Community	Sales Tax Rate	Community	Sales Tax Rate
Blue Island	10%	Flossmoor	10%
Frankfort	10% (Cook County)	Lynwood	9%
Frankfort	8% (Will County)	Olympia Fields	10%
Mokena	7.50% (Will County)	Homewood	9%

1% Sales Tax Impact to Consumers - (Local Residents vs. Non-Residents)

Sales tax is paid by consumers at the point of sale, regardless of where they live. In communities like Homewood that attract an exceptional amount of **non-local** shoppers, a large portion of the generated sales tax revenue comes from visitors, not just residents. Residents may only contribute a fraction of total sales tax revenue. Compared to property taxes, sales taxes tend to be more palatable. A small increase (e.g., 1%) can generate significant revenue for a community with near-minimal disruption to local spending habits. Commuters, near-community-neighbors, and area shoppers help fund local services (roads, police, fire, public works, administration) through their purchases. The 1% non-home rule sales tax interprets to local governments being able to increase their revenue without disproportionately burdening their own residents.

The main benefit of implementing a 1% non-home rule local sales tax is that money from the tax is generated by all consumers who shop in Homewood; however, revenue is used primarily to benefit the residents of Homewood.

Retail Coach - Mobile Data Survey

In spring 2025, the Village partnered with “The Retail Coach”, a well-known national retail market research firm from Tupelo, MS, to complete a mobile data survey within the various shopping corridors in Homewood. A mobile data survey is a popular and highly accurate research method that tracks and uses mobile devices—like smartphones and tablets—to collect data from participants. These surveys are increasingly popular in public policy, marketing, and urban planning because they allow for real-time, location-based, and user-friendly data collection. The survey provided critical information on where consumers, who shop in Homewood, work and live.

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What the Data Revealed

The Halsted Street shopping corridor generates the majority of the Village's \$6.2M of sales tax. In 2024, Halsted Street shopping accounted for over 60% (\$3.6M) of the Village's sales tax revenue for the year.

According to The Retail Coach survey, 88% of the revenue generated from Halsted Street sales is generated from non-residents.

Based on the data for all of the shopping corridors, staff projects that **85%** of the estimated \$3.5M of additional revenue that would be generated by a non-home rule local sales tax will **come from non-resident consumers**. This helps to lift the burden of some of the large capital and pension funding needs the Village has and places it into the hands of non-residents.

The Need

Village Capital Needs

Homewood's capital needs refer to the long-term investments required to maintain, improve, or expand its physical infrastructure and assets. These needs typically include projects such as road and sidewalk repairs, building renovations, fleet and equipment replacements, water and sewer system upgrades, and technology improvements. Unlike operating expenses, which cover day-to-day services, capital needs are often funded through capital improvement plans (CIPs), bond issues, grants, or dedicated revenue sources like sales taxes.

Meeting capital needs is essential for ensuring public safety, service efficiency, and community quality of life. For example, replacing aging fire apparatus, upgrading public works equipment, or renovating municipal buildings helps maintain reliable service delivery and reduces long-term maintenance costs.

Capital Improvement Plan

Currently, Homewood's Five-Year Capital Improvement Plan (CIP) has over **\$60M** of needs. This includes, among other projects, street improvements, public safety vehicles/equipment, and water infrastructure improvements. To fully address Homewood's critical capital needs, the Village must consider additional and consistent funding sources.

Lead Service Line Replacement Program

The Village will also be tackling the **\$70M** Lead Service Line Replacement Program beginning in 2026. This comprehensive effort intends to replace roughly 6,839 lead service lines in Homewood. The federal and state mandate requires Homewood to complete these replacements within 10 years or 2037.

Pension Payment

Homewood, like nearly every other municipality, does not "receive/collect" 100% of the property tax funding that is requested. Some property owners will not pay their property taxes (delinquency). There are other property owners who "appeal" their property tax bills. At the end of the property tax process, Homewood receives or collects 93% of the requested levy each year. This gap in property tax collection has led to an amount of roughly \$1.6M that is owed to the public safety pension system. In addition, this

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unfunded State mandate also requires municipalities' Police and Fire Pension funds to be 90% funded by 2040.

Opportunity for Future Funding

The Village does not currently have a consistent funding source for capital improvements. For many years, the Village has relied on a non-referendum General Obligation (G.O.) Bond issuance to fund its capital budget. Every three years, the Village issues a small bond for approximately \$2M needs to last for (3) years. Even if Homewood could pool the funds from the G.O. Bond and the General Fund surplus reserves, the amount would not be sufficient or sustainable to fund the Village's \$65M Five-Year Capital Improvement Plan. To fully address critical capital needs, the Village must consider additional consistent funding sources.

Alternative Option to Fund the Village's Capital Improvement Plan

An alternative financing option to consider for funding the Village's Capital Improvement Plan is to complete a large bond issuance in the future; however, the pledged revenue to pay back the debt would come from property taxes. This alternative would negatively affect all Village residents through higher property tax bills. The use of non-home rule sales tax to pay back Village debt allow for this debt to be shared by the many non-residents who shop within the Village; specifically, along the Halsted Street corridor.

Casino Revenue

The Village is fortunate to have a new revenue source by way of the Gaming Taxes generated by Wind Creek Casino, which opened in November 2024. The timing of the revenue is ideal for the Village as other revenue sources such as use tax, cannabis tax, and personal property replacement tax have been on the decline or remain flat.

On the other hand, while Village staff does an excellent job in managing department budgets, overall costs continue to rise, outpacing incoming revenues. Nearly 60% of the Village's General Fund expense budget is comprised of salaries and benefits. Since the Village has five (5) collective bargaining units, salary increases, by way of Cost of Living Allowances, are negotiated and locked in for up to three (3) years.

With some declining revenues and rising costs, the new gaming tax revenue has and will continue to help the Village to maintain its level of services. It has also allowed the Village to hire additional staff within our public safety departments.

Projection and Use of Proposed Tax

The Finance Department estimates an additional 1% local sales tax would provide approximately \$3,500,000 in revenue that would not otherwise be available. This would provide financial assistance for identified but unfunded capital improvement needs and work towards funding the Police and Fire Pension Funds to 90% by the year 2040, as currently required by State statute.

In order to maximize the non-home rule sales tax funds, staff is working with our audit and bond professionals to provide options on utilizing the new revenue as debt service for a larger debt issuance in the near future.

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This would allow the Village to have a significant cash influx to be used towards its Five-Year Capital Improvement Plan, while not requiring Homewood residents to fund the debt through additional property taxes.

Legislation to Implement Non-Home Rule Sales Tax

Per legislation, if the tax is approved by an ordinance after the effective date of Public Act 103-781 (August 5, 2024), the non-home rule municipality may use the proceeds of the tax for expenditure on municipal operations through January 1, 2031, in addition to or in lieu of any expenditure on public infrastructure or property tax relief.

Not a Feasible Option

If the Village were to use the non-home rule local sales tax to provide a reduction in property tax bills, the residents would only experience relief on the 11 cents of every dollar that is impacted. Transversely, without the proceeds from the new sales tax being routed to fund capital, lead service line replacements, and other municipal needs, the Village would be relegated to issue bonds. Unfortunately, the debt service for these bonds would fall directly to the property tax payers which would increase property taxes.

In order to best utilize the revenue from the non-home rules local sales tax, it is more beneficial to use the local sales tax as debt service on a larger bond issuance that allows the Village to complete many capital projects (such as roads and other infrastructure improvements) that are of long-term value to our residents without passing this debt service to the property tax payers.

Timeline

Upon approval of an ordinance by the Board of Trustees, the Village would need to notify the Illinois Department of Revenue (IDOR) by October 1, 2025 that it has enacted the tax. The tax would be effective January 1, 2026. The IDOR would administer and collect the additional 1% sales tax on behalf of Homewood to ensure a streamlined process for retailers, then remit the funds back to the Village. The Village would receive its first remittance payment in April 2026.

OUTCOME

Directing staff to prepare an ordinance implementing a 1% non-home rule local sales tax will allow the Village to utilize the local sales tax as a funding source for the Village's capital improvement program, including lead service lines and water main replacements, and assist with pension funding, which will ultimately provide property tax relief over time.

FINANCIAL IMPACT

- **Funding Source:** N/A
- **Budgeted Amount:** N/A
- **Cost:** N/A

LEGAL REVIEW

Not Required

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RECOMMENDED BOARD ACTION

Discuss the implementation of a 1% non-home rule local sales tax and provide direction to staff to prepare an ordinance for consideration at the September 9, 2025 Board meeting.

ATTACHMENT(S)

None