

**ROCHELLE CITY COUNCIL
AGENDA ITEM MEMO
REGULAR MEETING**

SUBJECT: Ordinance approving the implementation of a .25% (1/4 of 1%) increase in the non-home rule sales tax to replace the state's elimination of the 1% local grocery tax

Staff Contact: Jeff Fiegenschuh, City Manager

Summary: As you may be aware, the State of Illinois recently approved legislation to eliminate the 1% statewide grocery tax, effective January 1, 2026. This tax applied to food intended for off-premise consumption, such as groceries purchased for home use. It did not apply to take-out meals, alcohol, candy, or soft drinks.

To offset the impact of this change, the state has granted non-home rule communities the authority to implement their own local grocery tax of up to 1%. Additionally, these communities may raise their non-home rule sales tax, provided the total does not exceed 1%.

According to staff projections, the elimination of the state grocery tax will result in an estimated \$320,000 annual loss to the City's General Fund. These funds currently support essential services such as public safety, public works, community development and capital improvement projects (CIP).

To address this revenue shortfall, I recommend adopting a replacement local tax to take effect on January 1, 2026, the same date the state tax is set to expire. To meet this timeline, the city must enact the new tax by October 2025, as the state collects and remits sales tax revenues on a three-month delay.

Based on last year's data, this new tax is projected to generate between \$350,000 and \$500,000 annually. Under the current city code, these revenues must be allocated for infrastructure-related purposes. If approved, half of the revenue will be transferred to the General Fund to support salaries and benefits for Public Works and Engineering personnel. The remaining half will be directed to the CIP Fund for infrastructure improvements.

Staff will also continue working toward stabilizing the City's portion of the property tax levy at its current rate of \$0.92 per \$100 of assessed valuation, with the goal of reducing the rate to \$0.90 or lower by 2028.

If adopted, the City's combined sales tax rate (including all taxing bodies) will be 7.25%—still below that of neighboring communities such as Rockford and DeKalb.

Strategic Plan Goal Application: Fiscal Stability, Core Service Delivery, Infrastructure Effectiveness

Supporting Documents: Power Point Resolution

Staff Recommendation: Staff recommends approval of the ordinance, increasing the city's non-home rule sales tax by .25% to cover the lost revenues due to the elimination of the grocery tax.