



VILLAGE OF WINNEBAGO

MEMORANDUM

To: President Frank Eubank and Board of Trustees

From: Joseph Dienberg, Village Administrator

Date: March 5, 2025

Subject: Grocery Tax Discussion – Current Village Revenue Analysis

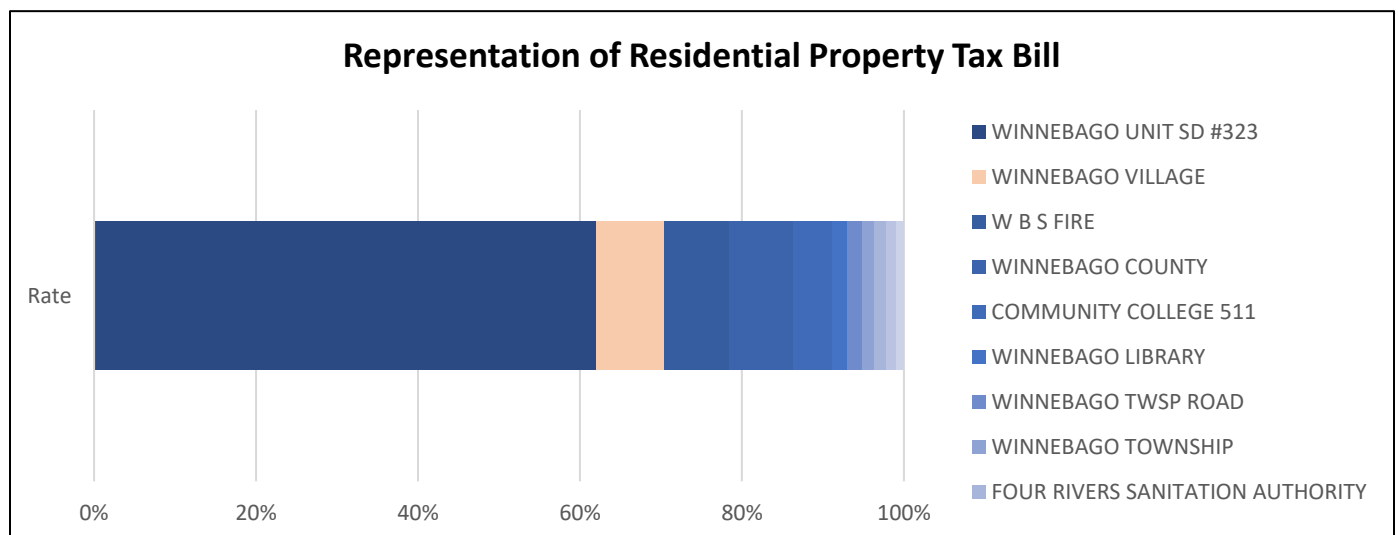
Background: As the Village Board evaluates options in response to the repeal of the state-imposed grocery sales tax, a clear understanding of our fund structure and revenue sources is necessary. This memo outlines the classification of Village revenues, the impact of the grocery tax repeal on the **General Fund (Fund 01)**, and the approach being taken to address the revenue shortfall.

While department heads are actively identifying expenditure reductions that will be presented to the board at a future meeting, the Board's focus remains on understanding the revenue structure to ensure an informed discussion about potential solutions.

Revenue Classifications

The Village's revenues fall into the following eight classifications:

1. **Real Estate Taxes** – Property taxes collected through the Village's Levy. The Village of Winnebago Represents 8% of the average resident's property tax bill. The portion in Orange in the chart below represents the Village's share of an average resident's property tax bill.



2. **Other Taxes (Sales, etc.)** This category includes revenue sources such as local and state sales taxes, the Local Government Distributive Fund (LGDF), excise taxes, motor fuel tax (MFT), cannabis tax, video gaming revenue, and the ComEd utility tax. These taxes represent a significant portion of the Village's revenue base and are primarily tied to economic activity within the community rather than fixed levies like property taxes. A portion of the sales tax revenue has historically been allocated to the Village's General Fund, supporting core services such as police, public works, and administration. With the elimination of the grocery tax, the Village is projected to lose approximately \$120,000 annually, creating a direct funding gap for essential operations.
- A. **Sales Tax:** The Village receives 1% of the 6.25% state-collected sales tax on general merchandise, which applies to most goods and services purchased within the community. For qualifying grocery items, the state has historically collected a separate 1% grocery tax instead of the standard 6.25%. Unlike general sales tax, 100% of the grocery tax revenue was redistributed to municipalities, providing a dedicated funding source for local governments.
 - B. **Local Government Distributive Fund (LGDF):** The Local Government Distributive Fund (LGDF) is the Village's per capita share of state income tax revenues. Historically, municipalities received 10% of total state income tax collections, but since 2011, the local share has been reduced to 6.47%, significantly decreasing revenue for local governments. LGDF funding levels are determined by the state budget and are not discretionary. While LGDF remains a key revenue source for municipal operations, these reductions have forced municipalities to rely more heavily on local revenue sources, such as sales tax, to maintain services.
 - C. **Excise Taxes:** These taxes are levied on specific goods, such as alcohol, cigarettes, and fuel. The Village receives a small share of these taxes through state distributions, but they are not a major component of the General Fund budget.
 - D. **Motor Fuel Tax (MFT):** MFT revenue is restricted by law and can only be used for road maintenance, infrastructure improvements, and transportation-related projects. It cannot be reallocated to cover operational shortfalls in the General Fund, meaning that any service reductions in response to the grocery tax repeal must come from other areas of the budget.
 - E. **Local Use Tax:** Collected on out-of-state purchases by Illinois residents and businesses, this tax ensures online and remote sales contribute to municipal revenue. Distributed based on population, it supplements the General Fund but remains subject to economic and legislative changes.
 - F. **Cannabis Tax:** The Village receives a portion of state-imposed cannabis sales tax, but similar to MFT, this revenue is restricted and can only be used for public safety and related expenses. It does not provide general operating revenue and cannot be used to offset the loss of the grocery tax.
 - G. **Video Gaming Revenue:** The Village collects revenue from video gaming terminals operating in local establishments. Unlike other tax revenues, gaming revenue is allocated to the Community Development Fund rather than the General Fund. This dedicated funding supports economic development efforts, helping to attract businesses, improve infrastructure, and grow the tax base. However, because these funds are earmarked for economic development, they are not available to offset the grocery tax loss.
 - H. **ComEd Utility Tax:** By ordinance 2015-12, the Village has designated revenue from the ComEd utility tax to fund road maintenance. This means that, like MFT, this revenue is restricted and cannot be used to support General Fund operations such as police or administration.
3. **Fines** – Revenue from police fines, administrative towing, and code enforcement violations.

4. **Grants** – State and federal funding received for specific projects or services.
5. **Municipal Charges & Reimbursements** – User Fees, Service Charges, reimbursements and cost-sharing arrangements.
 - A. **Water Sales:** Water sales generate revenue from residents and businesses paying for municipal water services. Like capital charges, these funds are dedicated to operating and maintaining the water system and are not available for General Fund purposes.
 - B. **Capital Admin Charges:** These charges help fund long-term water and sewer infrastructure improvements, ensuring that the Village can maintain its utility system. A portion of this revenue supports capital projects, while another portion covers payments to the Four Rivers Sanitary Authority (FRSA) as part of the transition of sewer operations to their management.
 - C. **Garbage Charges:** The Village collects fees for residential garbage collection, which are passed through to waste haulers under the Village’s garbage contract. While this revenue appears in the budget, it is offset by expenses paid to the contracted waste service provider and does not represent discretionary funding for Village operations.
 - D. **Intergovernmental Agreement (IGA) for WHS Resource Officer:** This is the largest “*Municipal Charges & Reimbursements*” revenue in the General Fund, representing payments from the school district for the School Resource Officer (SRO). These funds help offset police department expenses but are not general-purpose funds that can be used elsewhere in the budget.
 - E. **Development Escrow:** The Village collects escrow deposits from developers to cover engineering, legal, and administrative costs, ensuring that development pays for itself rather than burdening Village resources. Unused funds are returned to the developer. Since Development Escrow is part of the Community Development Fund (Fund 17).
6. **Interest** – Interest earnings have been strong due to high fund balances and favorable rates but are neither stable nor guaranteed. The General Fund budgeted \$84,000 in 2024, with actual earnings exceeding \$98,000. Other major interest-earning funds, including Operations & Maintenance, Motor Fuel Tax, Strategic Reserves, and Community Development, have also outperformed expectations due to strong cash positions and high rates. **However, as the Village moves forward with capital projects and equipment purchases, fund balances will decline, reducing future interest earnings.** Additionally, interest rates fluctuate, and current high returns are unlikely to continue as economic conditions shift. A declining rate environment will further reduce revenue, making this an unreliable long-term funding source.

While interest revenue has provided a temporary boost, it cannot offset structural budget shortfalls like the grocery tax repeal. As a volatile, market-driven source, it should not be considered a substitute for stable tax or fee-based funding.

7. **Transfers** – Fund transfers, typically from reserves or other designated funds. For the purposes of this discussion, these have been removed from the analysis as they can overstate actual annual revenue.
8. **Miscellaneous** – Revenue that does not fit into other categories, such as donations or unanticipated revenue sources.

Among these categories, the General Fund relies heavily on Other Taxes (Sales, etc.), including the grocery tax, which has now been eliminated, reducing annual revenue by approximately \$120,000.

Fund Structure and Revenue Sources

Each Village fund has specific revenue streams and designated uses. The **General Fund** is the primary operating fund that supports essential services, while other funds, such as **Community Development (CD) and Operations & Maintenance (O&M)**, are dedicated to specific functions and cannot be freely reallocated to cover the General Fund shortfall.

01 - General Fund (*Primary Operating Fund – Directly Impacted by Grocery Tax Loss*)

The General Fund is the primary funding source for Village governmental operations, covering police services, public works, administrative costs, and general government activities. Unlike other funds, which have dedicated revenue sources, the General Fund depends primarily on taxes and fees, making it especially vulnerable to external revenue fluctuations like the grocery tax repeal.

- **Primary Revenue Sources:**
 - Real estate taxes
 - Sales tax (including the now-repealed grocery tax)
 - Fines
 - Grants
- **Primary Uses:**
 - **Police Services** – Patrol, investigations, and emergency response.
 - **Public Works** – Street maintenance, drainage projects, and general infrastructure upkeep.
 - **General Administration** – Village operations, finance, and governance.
- **Grocery Tax Impact:**
 - The loss of grocery tax revenue is built into the sales tax category, directly reducing General Fund revenue by \$120,000-\$150,000 annually (5.69% of the General Fund budget).
 - Since the General Fund is responsible for core Village services, any reduction in funding has an immediate and direct impact on operations, staffing, and service levels.

15 - Motor Fuel Tax (MFT) Fund (*Dedicated for Road Maintenance*)

The MFT Fund is restricted by state law and can only be used for road and street maintenance. This ensures dedicated funding for infrastructure, separate from the General Fund.

- **Primary Revenue Source:**
 - State-allocated Motor Fuel Tax (MFT).
- **Primary Uses:**
 - Road and street maintenance
 - Infrastructure projects
- **Grocery Tax Impact: None**, as MFT revenue is independent of sales tax.

17 - Community Development (CD) Fund (*Economic Growth and Community Project Fund*)

The CD Fund is designed to foster community and economic development by funding community events, community projects (Memorial Park Upgrade), but also for attracting new businesses, supporting housing projects, and broadening the tax base. Unlike the General Fund, which focuses on maintaining existing services, the CD Fund is future-oriented and should not be used to offset immediate financial shortfalls. Diverting CD funds to cover operational costs could undermine long-term growth and make the Village financially weaker in the future.

- **Primary Revenue Sources:**
 - Video Gaming
 - Permit Fees
 - Developer fees
 - Liquor Licenses
 - Grants
- **Primary Uses:**
 - Community Projects
 - Supporting 4th of July Fireworks through an interfund transfer
 - Business attraction and retention
 - Housing and infrastructure development
- **Grocery Tax Impact:** Sales tax revenue does not enter the DC Fund, and continued investment in economic development is crucial for expanding the Village's long-term revenue base.

24 - Strategic Reserves Fund (*Emergency & Long-Term Planning Fund – Not for Operating Shortfalls*)

This fund exists as a financial safeguard for emergencies and future needs. While it could theoretically be tapped to cover short-term revenue gaps, this would not be a sustainable solution. Using reserves to cover operating costs would leave the Village unprepared for unexpected future expenses.

- **Primary Revenue Sources:**
 - Investment earnings
- **Primary Uses:**
 - Emergency funding
 - Long-term strategic projects
- **Grocery Tax Impact: None**, but using reserves is not a sustainable long-term solution.

51 - Operations & Maintenance (O&M) Fund (*Enterprise Fund*)

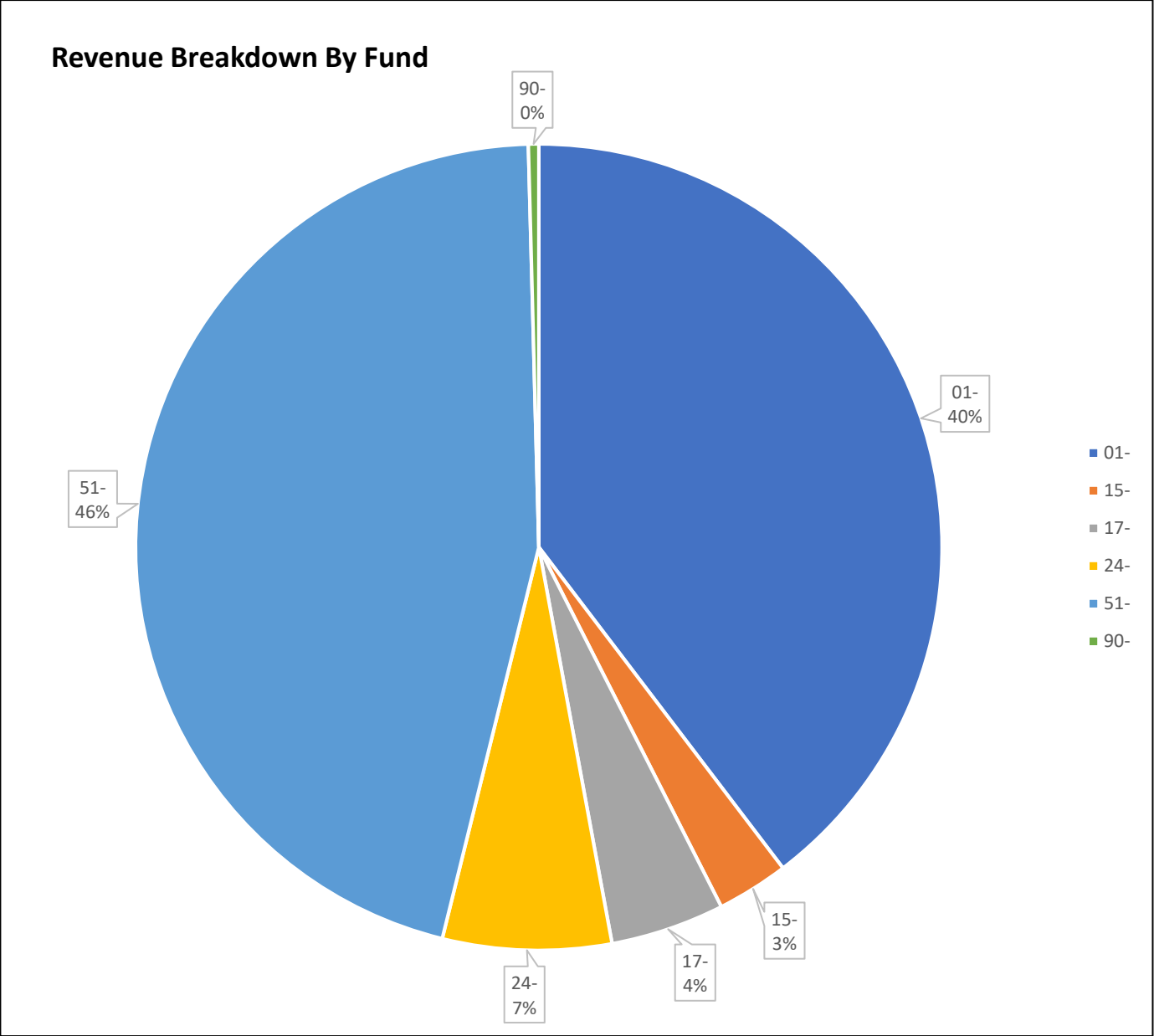
The O&M Fund supports water and sewer services and is funded primarily by user fees. Since residents and businesses pay directly for water services, this fund operates primarily independently from tax revenue. The Village imposes a 1% Local Sales Tax that was approved via referendum to pay for infrastructure related to the FRSA conversion for Sewer Service. As a result, the grocery tax repeal has no effect on O&M operations, and funds from O&M cannot be used to cover General Fund shortfalls.

- **Primary Revenue Sources:**
 - **User/Service Fees** (water and sewer charges).
- **Primary Uses:**
 - Water treatment and infrastructure
- **Grocery Tax Impact: None**, since water and sewer services are paid for by users.

90 - 4th of July Fund (*Community Event Fund*)

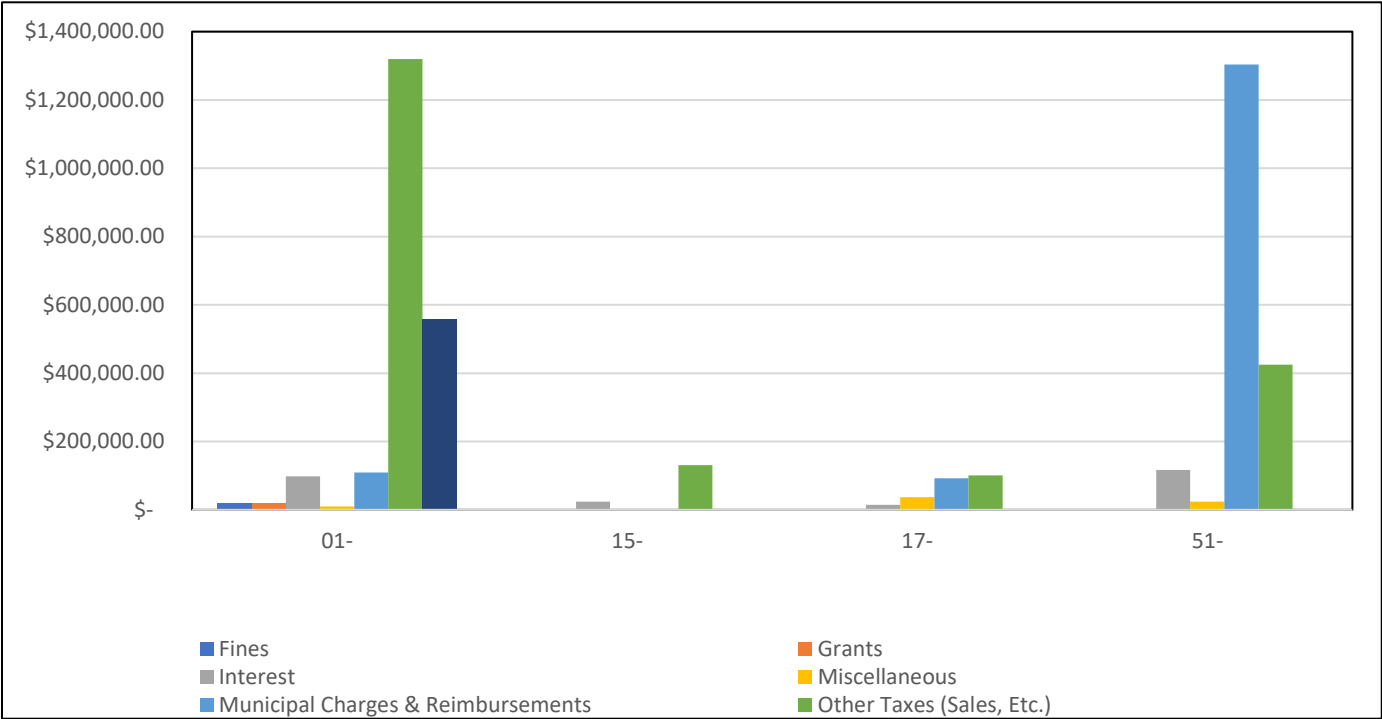
This fund is dedicated solely to community events and celebrations, supported by donations and sponsorships. Because it does not rely on tax revenue, it is not affected by the grocery tax repeal.

- **Primary Revenue Sources:**
 - Transfer-In from Community Development
 - Donations
 - Sponsorships
 - Event-related revenues
- **Primary Uses:**
 - 4th of July celebrations and community events
- **Grocery Tax Impact: None**, as this fund is independent of tax revenue.



The Chart Above shows the 2024 External Revenue Breakdown (Excluding Transfers), by Fund. (01-GEN, 15-MFT, 17-CD, 24-4TH, 47-O&M, 90-SR)

Why the Focus is on the General Fund: The General Fund is the only fund directly affected by the grocery tax repeal because it relies on sales tax revenue. Other funds, such as Community Development (CD) and Operations & Maintenance (O&M), have dedicated revenue sources and legal restrictions on their use. While CD investments could help grow the Village’s future tax base, reallocating these funds would hinder long-term financial stability. Similarly, the O&M Fund cannot be used for general government operations since it is self-sustained by user fees. The chart below represents how the previously described categories make up each Fund’s revenues:



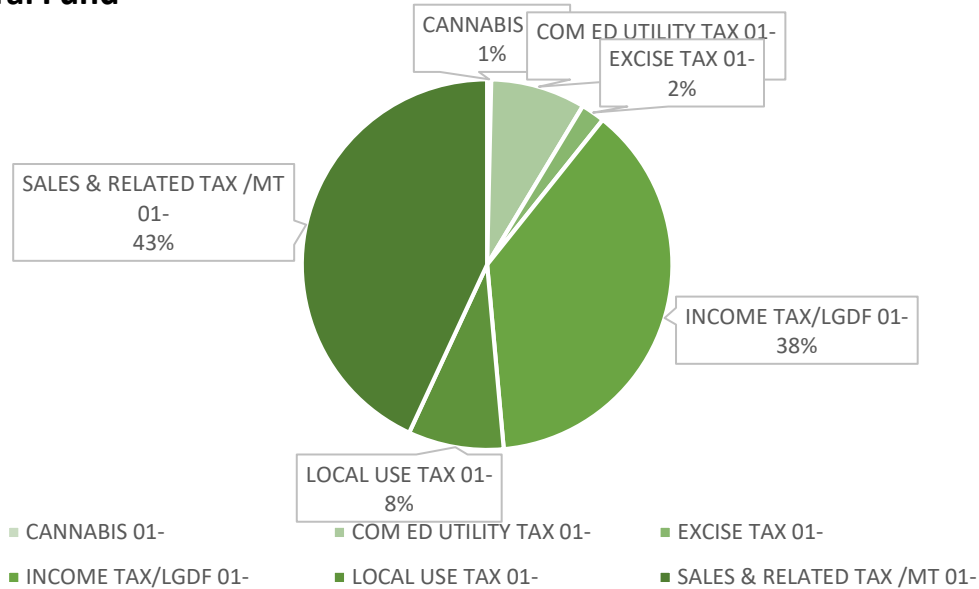
When focusing on the “Other Taxes” classification within the General Fund, this category serves as a critical pillar of the Village’s financial stability, encompassing revenue sources such as state and local sales taxes, the Local Government Distributive Fund (LGDF), excise taxes, and other shared tax revenues. As the largest single revenue stream for the General Fund, it provides funding for core municipal operations, including public safety, public works, and general administration.

A significant portion of this revenue has historically come from the grocery tax, contributing an estimated \$120,000 to \$150,000 annually. If this tax is eliminated, the “Other Taxes” revenue will experience a reduction of 20% to 25% within this revenue classification. Given that “Other Taxes” represent the primary funding mechanism for essential Village services, the effects of this change will need to be addressed.

Unlike other revenue streams that are tied to fixed rates or dedicated funds, "Other Taxes" fluctuates based on economic conditions and legislative changes. The removal of the grocery tax reduces an existing revenue source without an automatic replacement, leaving the Village with a structural gap that will require adjustments through service reductions or alternative revenue solutions.

The chart on the next page provides a detailed breakdown of “Other Taxes”, illustrating how the loss of the grocery tax affects the Village’s financial outlook.

"Other Taxes" (Sales, Etc.) General Fund



Next Steps

The Village is at a critical juncture in determining how to address the financial shortfall caused by the grocery tax repeal. While there is no immediate desire to increase the tax burden on residents, it is equally important to recognize that the public has an expectation for a certain level of services. Any reductions must be carefully considered to balance fiscal responsibility with the Village's ability to provide essential operations.

To ensure an informed discussion, department heads are in the process of finalizing proposed service eliminations. These recommendations will be presented at an upcoming meeting, allowing the Board to engage in a deeper discussion about which reductions align with the Village's priorities. Once the Board reaches a consensus on what services would be eliminated, the next step will be to determine whether public forums should be pursued. If the Board chooses to seek public input, staff will facilitate that process, ensuring residents have an opportunity to weigh in.

However, before engaging the public, it is critical that the Board first identifies what reductions are being considered. Without a defined proposal, discussions remain too broad to generate meaningful feedback. A clear direction on service adjustments will allow for a more productive conversation, whether at the Board level or in a public forum.

As discussions move forward, the Board's focus remains on understanding revenue, evaluating the impact of service reductions, and ensuring that any long-term strategy prioritizes financial sustainability. The department heads will provide further details at an upcoming meeting to guide the next phase of decision-making.