



VILLAGE OF WINNEBAGO

MEMORANDUM

Prepared By:	Joseph Dienberg, Village Administrator
Meeting Name:	Committee of the Whole
Meeting Date:	February 19, 2025
Item Name:	Grocery Tax Ordinance Discussion

Background:

For decades, the State of Illinois imposed a 1% grocery sales tax, with all revenue dedicated to municipalities to support essential services such as police and fire protection, infrastructure maintenance, and public works. This stable funding source helped local governments avoid increasing property taxes or making significant service reductions.

In 2022, the state temporarily suspended the grocery sales tax as part of an election-year tax relief package, but it continued to reimburse municipalities from the state's General Revenue Fund, ensuring no financial shortfall. **However, in 2024, Governor Pritzker proposed a permanent repeal of the grocery tax,** framing it as a measure to reduce costs for residents. Unlike the temporary suspension, this repeal does not include any replacement funding from the state. Instead, municipalities are now left to decide whether to absorb the revenue loss or impose a local grocery tax.

Despite concerns raised by municipal leaders statewide, the Illinois General Assembly approved Public Act 103-0781, officially repealing the grocery tax effective January 1, 2026. The same legislation grants the authority for municipalities to reimpose a local 1% grocery sales tax by ordinance, without requiring a referendum. However, failure to act before the deadline will result in a complete loss of this revenue source.

Implications for Municipalities

The elimination of the grocery tax follows a broader trend of unfunded mandates being placed on local governments. While the state argues that municipalities have received additional revenues from sources such as cannabis sales and video gaming, these funds are often limited in scope, unreliable, or insufficient to cover the increasing costs of state-mandated expenses, such as:

- Increased compliance costs due to new state regulations
- IEPA and other State Mandated Infrastructure and Utility Requirements

While the repeal has been framed as a tax cut for residents, the reality is that municipalities must either identify alternative revenue sources or make difficult service reductions.

Regional Coordination and Next Steps:

Recognizing the challenges of enacting this tax individually, our **partner municipalities at NorthCOG** have expressed their intent to **pass this ordinance regionally around June 2025** and potentially hold a **joint press conference and press release**. This coordinated effort aims to reduce public scrutiny on any single municipality while ensuring a unified approach to maintaining financial stability.

Alternative Tax Options Considered

As part of **Public Act 103-0781**, when the state repealed the 1% grocery tax, it simultaneously granted **non-home rule municipalities the authority to impose an additional 1% general sales tax**. This option was intended to provide municipalities with an alternative means to offset the revenue loss, either in addition to or instead of reinstating the grocery tax.

However, after **consulting with the Illinois Municipal League (IML)**, staff determined that the **Village of Winnebago is ineligible to impose this tax due to our existing referendum-based sales tax** that funds water infrastructure projects. Illinois law prohibits municipalities from imposing an additional non-home rule sales tax beyond what has already been approved by voter referendum.

This broader sales tax was evaluated because **it would impact residents less directly**, as it would be generated primarily at Winnebago Corners, often **paid by non-residents traveling on US 20**. Unfortunately, due to statutory limitations, this alternative is not available to the Village.

Next Steps for the Village of Winnebago:

Since the Board is not considering immediate action, staff will use the next few months to gather relevant financial data and provide a **detailed analysis of the potential revenue loss** should the Board choose not to reinstate the grocery tax.

At an upcoming meeting, staff will present:

1. **Projected revenue loss** if the Village does not impose the local grocery tax.
2. **Financial impacts on essential services** and how the Village could absorb or offset the shortfall.
3. **Further discussion on the regional approach** and coordination with NorthCOG municipalities.

The Board will have time to evaluate this issue before the **June 2025 NorthCOG regional initiative**. Should the Board decide to proceed, the ordinance must be adopted and filed with the **Illinois Department of Revenue by October 1, 2025**, to ensure uninterrupted revenue collection starting **January 1, 2026**.

This is a significant decision that will impact the Village's long-term financial outlook, and staff looks forward to discussing potential options with the Board in the coming months.