VILLAGE OF WINNEBAGO
MEMORANDUM

Prepared By:	Joey Dienberg, Village Administrator
To:	President Eubank and the Village Board of Trustees
Date:	May 7, 2025
Subject:	Grocery Tax

Background

The Village of Winnebago began formal discussions on the repeal of the state-imposed 1% grocery sales tax at the February 19, 2025 Committee of the Whole meeting. This followed Governor Pritzker's 2024 proposal to permanently eliminate the tax, which had historically provided a dedicated revenue stream to municipalities without burdening property owners. Although the state previously reimbursed municipalities during a temporary suspension in 2022, the permanent repeal—codified in Public Act 103-0781 and effective January 1, 2026—does not include any replacement funding. Instead, it grants municipalities the authority to reimpose a local 1% grocery tax by ordinance, without a referendum. Failure to act by the October 1, 2025 filing deadline would result in a complete loss of this revenue. A follow-up memo dated March 5, 2025, outlined the structure of the Village's funds and identified the grocery tax as a major contributor to the General Fund, which supports essential services such as police, public works, and administration. Without reinstatement, the Village is projected to lose between $120,000 and $150,000 annually, amounting to nearly 6% of the General Fund budget.

In light of the significant financial impact, the Village continues to explore all possible alternatives to address the projected revenue loss. While statutory limitations prevent the Village from pursuing an additional non-home rule sales tax, other revenue options are still being evaluated. At this time, reinstating the grocery tax remains the most viable option to avoid service reductions, though the Board has expressed hesitation about imposing any new local tax. To help reduce the burden of acting alone, the Village has engaged in discussions with partner municipalities through NorthCOG. Several communities have signaled their intent to adopt a grocery tax ordinance around June 2025 and issue a coordinated press release, aiming to minimize public scrutiny and demonstrate a unified, regional approach. Recognizing the weight of this decision, the Village Board chose to pause further discussion until new trustees were seated, ensuring the full Board could evaluate the options with complete information. In the meantime, staff are finalizing projected service reductions and preparing additional financial data to support the Board's decision-making.

These items will be presented at an upcoming meeting in advance of the NorthCOG timeline, allowing the Board to determine whether to pursue reinstatement, implement service cuts, or explore public engagement before taking action.

While the options below are not the Village's only options, they illustrate a range of viable paths forward in response to the potential sunset of the locally imposed grocery tax. Based on statutory timelines, financial impacts, and long-term planning needs, Village staff recommends Option 1: authorizing the 1% grocery tax by ordinance prior to the October 1, 2025 deadline, while committing to public engagement through a structured survey or future referendum.

The remaining options—outlined below—represent alternative approaches should the Board desire additional community input prior to taking action. Each has tradeoffs, and staff has provided recommendations for how each could be implemented if selected. However, it is important to reiterate that only Option 1 ensures uninterrupted revenue collection and a proactive approach to maintaining service levels.

Option 1: Approve Locally Imposed Grocery Tax – Public Input from Survey or Referendum to Follow (Recommended by Staff)

Under this option, the Village would adopt the 1% grocery tax locally by ordinance prior to the October 1, 2025 filing deadline, preserving an estimated $120,000–$150,000 annually in General Fund revenue. This revenue directly supports essential operations such as police protection, public works, and administration.

This is the staff-recommended approach because it accomplishes two important goals. First, it secures ongoing funding without interruption—protecting the Village from sudden budget shortfalls or reactive service reductions. Second, it still honors the Board's interest in broader community involvement by committing to post-adoption engagement, either through a professionally conducted survey or a future referendum.

A referendum may appear to be a straightforward option, but it simplifies a complex fiscal issue into a binary choice—without the ability to explain tradeoffs or weigh service priorities. Residents may value certain services more than others, but a ballot question does not offer that context. Moreover, many residents may currently feel satisfied with Village services, and that absence of complaints could mask the risks of letting this funding lapse. If core services must be scaled back to fill the gap, the impacts may only become visible when they are harder—and more costly—to reverse.

For these reasons, staff does not recommend a referendum as the preferred tool for public input.

A statistically valid community survey offers a more constructive and informative path. Surveys allow residents to weigh in on which services matter most, assess their willingness to support modest revenue sources, and better understand the consequences of various options. They also offer the flexibility to present different scenarios, helping both residents and the Board engage in a clearer and more balanced discussion about the Village's fiscal future. By adopting the tax before the deadline and committing to a structured engagement process afterward, Option 1 avoids immediate disruptions, preserves service levels, and fosters a more thoughtful conversation about long-term policy choices. This combination of stability and transparency is why staff recommends this approach.

Option 2: Village Hosts Public Hearings

The Village Board may choose to host public hearings as a practical and timely means of engaging the community on whether to adopt a 1% grocery tax. With the statutory filing deadline of October 1, 2025, this approach allows for direct resident input while still meeting the timeline required to preserve uninterrupted revenue collection beginning January 1, 2026.

While public hearings are not as statistically robust as a referendum or scientifically valid survey, they offer a valuable opportunity for residents to ask questions, hear from staff, and understand the broader fiscal context. Importantly, this is not a simple "yes or no" question about taxation—it is a broader policy decision involving tradeoffs between a modest increase in consumer costs and the ability to maintain core services such as police protection, street maintenance, and administrative support.

However, it is important to recognize a potential drawback of the public hearing format. Such forums may not draw a representative cross-section of the community and often attract those who are most opposed to the proposed action. While critical voices are important to hear, this may result in a skewed perception of overall community sentiment if the broader, more satisfied public remains silent.

If the Board proceeds with public hearings, staff strongly recommends a clear and transparent presentation of what is at stake. This includes outlining the estimated $120,000–$150,000 annual General Fund revenue loss if the tax is not reinstated, and identifying what specific service reductions would be necessary to balance the budget. Staff would also request the opportunity to present a formal list of potential service cuts, enabling a realistic and informed discussion between the Board and residents.

Should the Board choose to proceed following the hearings, the Village can adopt the 1% grocery tax by ordinance ahead of the October 1 deadline. This action ensures continuity of funding for essential operations and reflects a balanced approach that values both community input and fiscal responsibility.

Option 3: Approve Locally Imposed Grocery Tax

Under this option, the Village Board would adopt the 1% grocery tax by ordinance prior to the October 1, 2025 deadline without conducting public hearings or seeking additional community input. This approach ensures uninterrupted revenue collection beginning January 1, 2026 and allows the Village to preserve approximately $120,000–$150,000 in annual General Fund revenue that directly supports essential services, including police, public works, and administration.

The primary advantage of this approach is its efficiency. It avoids the delays and administrative efforts involved in holding public hearings or conducting surveys and allows the Board to act quickly to protect the Village's financial stability. It also reflects the role of elected trustees as decision-makers entrusted by voters to act in the best interest of the community. The public has placed its confidence in the Board to make informed, responsible choices on complex matters such as this.

However, the key drawback is the absence of formal public feedback. Residents may feel excluded from the process or perceive the decision as lacking transparency, particularly given the sensitivity around any new tax. Without a public-facing engagement effort, the Village also misses an opportunity to educate the community on the implications of losing this revenue source—and the potential for service reductions that could follow.

Nonetheless, this approach remains an option and operationally reasonable for a Board that feels confident in its fiscal responsibility and its understanding of the community's long-term needs.

Option 4: Select a New Revenue Source

If the Village Board does not wish to continue the 1% grocery tax but still seeks to maintain a dedicated revenue stream to support core services, this option represents the path forward. Rather than letting the tax lapse without a plan, the Village would actively select a new, sustainable revenue source to take its place.

It's important to note that the Village of Winnebago is a non-home rule municipality. In Illinois, communities with a population of 25,000 or more are automatically granted home rule authority, which allows them broad local control over taxation, regulation, and debt. Municipalities with fewer than 25,000 residents—like Winnebago—can only become home rule by a voter-approved referendum. Because Winnebago has not adopted home rule status, it has limited authority to raise or implement certain types of taxes and fees. Most of the revenue options available to us must be explicitly authorized by state statute and often come with restrictions or caps that limit flexibility. This constraint is central to understanding why few alternatives exist that can fully and reliably replace the grocery tax.

1. **Retain the Local Grocery Tax** The current 1% grocery tax is the most direct, efficient, and reliable source. It is already authorized under state law, requires no referendum, and is collected through the Illinois Department of Revenue with minimal administrative overhead. Importantly, this tax captures revenue from both residents and non-residents—particularly shoppers at Winnebago Corners along US 20. For a typical family spending $1,000 per month on qualifying groceries, the tax amounts to $10 monthly, or $100 annually. While the tax is regressive in nature as it is uniform and may affect lower-income households proportionally more, it spreads the burden broadly and maintains current service levels.
2. **Implement a Vehicle Sticker Program:** A vehicle use tax, imposed via a mandatory annual sticker, would shift the burden entirely to Village residents. To generate approximately $120,000 annually—the same amount raised by the grocery tax—stickers would need to be priced at $100 per vehicle, based on an estimated 1,200 vehicles in town. This option ensures local control but comes with administrative and enforcement challenges and may be unpopular with residents. A lower sticker price, such as $50, would only produce half the needed revenue. While this alternative is not as regressive as a flat consumption tax, it would disproportionately impact larger families or households with multiple vehicles, who would pay more regardless of income or driving habits. It also fails to capture any contribution from non-residents, even though they utilize Village streets and services.

3. **Property Tax Referendum** A property tax increase could provide a long-term, stable solution—but only if approved by voters in a referendum. While property taxes are a familiar mechanism, they place the full financial burden on local property owners, and the timeline for holding a referendum may not align with the October 1, 2025 deadline for replacing the grocery tax. There is also no guarantee that a referendum would succeed.
4. **Natural Gas Utility Tax (Nicor)** A tax on natural gas usage, collected through Nicor, is another available tool. However, it would only apply to residents and businesses inside the Village and would vary by season and usage patterns. High-usage households—especially in winter—would be impacted the most. This tax does not share the burden with non-residents and may result in more volatile revenue compared to the grocery tax.

Other Revenue Options (Minimal Impact)

Several other mechanisms have been reviewed but are unlikely to generate meaningful revenue or provide long-term stability:

a) **Increased Permit or Development Fees:** These could bring in small amounts of additional revenue in active construction years, but they are highly unpredictable and increasing too far could discourage investment in the community. They are not a reliable or sustainable funding solution.

b) **Excise or Telecommunications Tax Adjustments:** These taxes already exist at modest rates, and further increases would generate little new revenue. Additionally, the base for these taxes is shrinking due to the decline in landline use and changes in telecommunications billing structures.

While each of these alternatives offers some revenue potential, they all share a common drawback: the financial burden is placed squarely on Village residents and businesses. Unlike the grocery tax—which shares the load with non-residents making purchases in the community—these alternatives do not capture outside spending. Many also require new systems, public education, or enforcement mechanisms, adding to the Village's administrative workload.

Option 5: Grocery Tax Sunsets / Service Reduction

Under this option, the Village would allow the 1% grocery tax to sunset on January 1, 2026, and absorb the resulting $120,000–$150,000 annual loss through General Fund service reductions. No replacement tax or alternative revenue source would be pursued.

This approach avoids imposing any new financial burden on residents or businesses and aligns with those opposed to local taxation. It also removes the administrative effort and political risk associated with adopting new taxes or fees. However, the tradeoff is direct and significant: the lost revenue supports essential services such as police protection, street maintenance, snow removal, and administrative operations. Reducing the General Fund means reducing the Village's capacity to deliver those services.

Village staff have prepared preliminary data outlining potential cuts to close the funding gap. These scenarios are not final—any service reductions would be decided by the Board. Staff's role is to provide options and present the implications. Should the Board wish to move forward with this path, staff would request time at a future meeting to formally present the proposed reductions and answer questions.

This option provides fiscal clarity but carries risk. Residents may not immediately feel the effects, but as service levels decline, the impact will become more visible—particularly in areas tied to public safety, infrastructure, and responsiveness. The Board will need to weigh whether this course aligns with the community's service expectations and long-term sustainability.

Next Steps

Staff requests that the Village Board formally identify which of the outlined options it wishes to pursue. A draft ordinance to reimpose the grocery tax is prepared and can be brought forward at the Board's direction. If the Board supports reinstating the tax, staff can also prepare supporting communication materials and a timeline for either public hearings or survey engagement, depending on the preferred level of community input. Clear direction is needed at this stage to ensure timely planning and action ahead of the October 1, 2025 implementation deadline.

Broader Fiscal Context

In light of the Board's request to evaluate alternatives, it's important to consider the broader fiscal landscape facing Illinois municipalities. While the Village of Winnebago continues to explore potential non–state shared revenue sources, much of our financial base remains tied to state-distributed revenues such as the Local Government Distributive Fund (LGDF), Motor Fuel Tax (MFT), and others.

For Calendar Year 2025, the Illinois Municipal League projects the following per capita shared revenues:

- LGDF: $177.00
- State Use Tax: $24.00
- MFT: $22.04
- Transportation Renewal Fund: $22.98
- Cannabis Use Tax: $1.65
  Total: $247.66 per capita

With our population of 2,940, this equates to approximately $728,140 in projected shared revenue for 2025. These estimates, updated in February 2025, have proven reliable for budgeting purposes.

However, it is important to note that a portion of this revenue is restricted in use. MFT, TRF, and cannabis funds cannot be applied broadly to General Fund operations, limiting flexibility. Approximately 25% of the General Fund relies on unrestricted shared state revenues.

Potential for a Locally Imposed Non–Home Rule MFT

One other revenue concept that has circulated in recent years is the idea of allowing non–home rule municipalities to impose a local Motor Fuel Tax (MFT). While no legislation has been introduced during this session, similar proposals have been introduced in previous General Assembly sessions to extend this authority beyond home rule communities. Should such authority be granted in the future, it could provide an opportunity for municipalities like ours to generate additional revenue specifically for transportation-related needs.

The Board has expressed concern that, if enacted, this authority might eventually lead to a reduction in state-shared revenues—similar to what occurred with the grocery tax—shifting the financial burden back to local governments. While this concern is understandable given past experiences, there is currently no indication or active discussion in Springfield suggesting that such a shift is being considered in connection with a local MFT.

In addition, the Illinois Municipal League has raised ongoing concerns regarding:

- Continued Diversion of LGDF Funds: The Village receives only 6.47% of state income tax revenues through the Local Government Distributive Fund (LGDF), down from the original 10% allocation prior to 2011. **This reduction has resulted in a loss of approximately $284,916 in revenue this year alone, based on our population and current per capita share.**
- The continued expansion of property tax exemptions, which reduce the Village's assessed value and shift the tax burden.
- Diversions from the Personal Property Replacement Tax (PPRT) by the state—$372 million is projected to be diverted in 2025, up from $21 million in 2009.
- Potential iGaming expansion, which may negatively impact existing brick-and-mortar video gaming revenues.

While these are important trends to monitor, there are currently no active legislative proposals that would alter our shared revenue streams. These broader pressures are worth considering as part of our long-term fiscal strategy, but they should not be viewed as immediate threats. In truth, municipalities lack a crystal ball, and the Village remains focused on what can be known and addressed today.