

Home Rule Alternative Taxes and Revenue Sources

Except where otherwise restricted by statute, a home rule municipality may impose any kind of taxes it wishes, as long as they are not based on or measured by income, earnings, or occupations, or pre-empted by state legislation. These taxes can serve as an alternative to property taxes and, in many cases, serve to share the burden of taxation with non-residents.



VOTE ON NOVEMBER 4th

Process is Important

Obtaining home rule status does not mean that the Village can impose additional taxes without public notice or discussion. The Village of Lake Zurich recognizes the importance of a healthy discussion with respect to the critical needs of our community. Any of the taxes described below, if considered in the future, would be properly vetted by the Village Board and publicly noticed and discussed so that the input of our residents is appropriately taken into consideration.

Alternative Taxes in Lake Zurich

As is the case in many communities throughout our region, there is the need in Lake Zurich to replace aging infrastructure, maintain our streets and sidewalks, mitigate flooding caused by severe rain events, and remove and replace street trees infected by Emerald Ash Borer, among other critical needs. Home rule communities have more flexibility in how revenue is generated and spent.

In Lake Zurich, there are no immediate plans to implement a new tax based on obtaining home rule status. However, as the needs identified above continue to grow, home rule status would provide additional options for the Village to consider with input from residents in how best to address our collective needs. It is important to note that the consideration of any new tax would require a separate vote by the Village Board at a public meeting with input from residents.

A common question we have heard from residents is . . .

What Types of Alternative Sources of Revenue are Available to Home Rule Cities?

The following are some of more common types of taxes available to home rule cities:

Gasoline Tax

A gasoline tax is imposed on the sale of vehicle fuel at the pump. Lake Zurich currently has five gas stations located along the heavily travelled Rand Road corridor. In addition to Lake Zurich residents, many commuters and other non-residents purchase fuel in Lake Zurich. Initial projections indicate that \$150,000 in revenue could be generated from each penny (\$0.01) levied as a gasoline tax at the pump.

Hotel / Motel Tax

Not exclusive to home rule communities, the Village currently levies a hotel/motel tax for overnight stays at hotels in Lake Zurich. State statute, however, dictates how revenue generated by this tax can be spent which differs significantly between home rule and non-home rule municipalities. The revenue from a home rule hotel/motel tax may be applied to *any public purpose* while a non-home rule hotel/motel tax can only be used to promote over-night tourism and is limited by a 5% cap. The Village currently generates approximately \$100,000 annually from this tax. An immediate benefit in obtaining home rule status would be flexibility in how these dollars can be spent.

Prepared Food, Beverage, and Packaged Liquor Tax

This tax is placed upon the purchase of prepared food, beverage, or alcoholic liquor at a restaurant or liquor establishment. It is also placed upon the purchase of packaged alcoholic liquor sold at retail. Initial projections indicate that a 1% tax would generate approximately \$500,000 in annual revenue.

Home Rule Sales Tax

Both home rule and non-home rule cities can leverage taxes on the sale of goods, however, non-home rule communities are restricted to utilizing these funds for infrastructure and property tax relief. Home rule communities are not restricted and have much greater flexibility. Home rule communities have no maximum rate that can be levied while non-home rule communities are capped at a 1% maximum rate. Currently, Lake Zurich levies a 0.5% non-home rule sales tax. Projections indicate that a 0.25% increase in sales taxes to 0.75% would generate approximately \$3 million that, as a home rule community, could be used for any purpose.

Real Estate Transfer Tax

A real estate transfer tax is, quite simply, a tax on the transfer of ownership of real estate. This tax would require a separate referendum even after home rule status is obtained. Typically the tax is imposed on sellers of real estate when the title is transferred. As of 2013, we have identified 21 area communities that impose a tax of \$3.00 per \$1,000 of value and 19 area communities that impose a tax of \$5.00 per \$1,000 of value. A \$3/ \$1,000 tax is projected to generate approximately \$300,000-\$400,000 in Lake Zurich.

Video Gaming Terminal Annual License Fee

In 2014, Lake Zurich passed an Ordinance allowing for video gaming at certain restaurants pursuant to the Illinois Video Gaming Act. The Act limits non-home rule cities to impose a \$25 annual licensing fee per video gaming terminal. Home rule cities are able to increase this annual fee; typically to \$500 per terminal. With 17 active video gaming terminals in Lake Zurich, a \$500 fee would generate approximately \$8,500 annually. If every eligible establishment in Lake Zurich installed the maximum number of terminals allowed, this fee could generate up to \$60,000.

Other Less Common Revenue Sources . . .

Licensing Fees on Service Companies

Annual licensing fees can be imposed on landscapers, contractors, etc. Since the State does not preempt contractor licensing, home rule cities have the ability to register AND license contractors. Licensing contractors would provide Lake Zurich the ability to revoke licenses (if necessary) and prevent companies from performing work in Lake Zurich if problems arise.

Leasing Tax

A leasing tax can be imposed on the transfer of money between a tenant and landlord. For example, some home rule communities impose a 1% tax on the gross income generated from a rental property.

Admission Tax

An admission tax is imposed on patrons witnessing or participating in amusements and other related activities (i.e. – amusement park rides and games, circuses, carnivals, fishing, skating, pleasure boat rides, dancing, bowling, golf, billiards, swimming, tennis, weightlifting, etc). The tax is based on the admission fees and other charges for the privilege to participate in the amusement.

Wheel Tax

An annual wheel tax is levied for each vehicle registered with the Secretary of State to an address within the municipal corporate limits. A vehicle sticker would not be required to be displayed but the annual wheel tax would still apply.

Rental Inspection Fees

An inspection fee can be assessed based on the number of rental units in a multi-family property.

Immediate Benefits to Lake Zurich

While there are no immediate plans to impose any of the taxes described above, there are two immediate benefits of Lake Zurich achieving home rule status as it relates to taxation and revenue. First, hotel/motel taxes are not restricted to being spent on activities that promote or generate overnight stays. The \$100,000 collected annually to date can be spent on addressing the critical issues in our community. Second, the Village would obtain additional flexibility in how the revenue generated from the 0.5% sales tax is allocated.

Village Board Passes Property Tax Cap Ordinance

In August of 2014, the Village Board passed an Ordinance that will require the Village of Lake Zurich to continue to abide by the Property Tax Extension Limitation law (otherwise known as the tax cap), if as a result of the November 4th referendum the Village becomes a home rule unit of government. This is the same tax cap that the Village currently adheres to as a non-home rule community.

Additional information regarding home rule can be found on the Village of Lake Zurich website:

LakeZurich.org/HomeRule