

## **MUNICIPAL REVENUE SOURCES**

### **OFFICE OF LOCAL GOVERNMENT MANAGEMENT SERVICES**

#### **STATE SHARED REVENUES**

##### **1. SALES TAX**

The State distributes 1% of the basic 6.25% sales tax collected within a municipality to the municipal government. This tax is imposed on the sale of tangible personal property including food to be consumed off the premises and medicines and medical appliances. The tax rate is higher in Chicago and St. Louis metropolitan counties for mass transit and in one county (Du Page) for a Water Commission. Home rule municipalities can impose an additional rate without limitation in .25% increments. There are no restrictions in the use of this revenue.

Non-home rule municipalities may impose an additional 1/2 of 1% by referendum to be used only for infrastructure improvements. Infrastructure is defined as: streets, bridges, sidewalks, waste disposal systems, water and sewer line extensions, water distribution and purification facilities, storm water drainage and retention facilities and sewage treatment facilities.

In addition to the sales taxes returned to the municipalities based upon local sales, municipalities also receive State Use Tax. The Use Tax is distributed on a per capita basis. For the period beginning May 1, 2003 through April 30, 2004, the Illinois Municipal League estimates the per capita distribution to be \$8.80 State Use Tax.

##### **2. INCOME TAX**

On July 1, 1995, municipalities began receiving one-tenth of the income tax. For the period beginning May 1, 2003 through April 30, 2004, the Illinois Municipal League estimates the per capita distribution to be \$59.60 for the Income Tax. There are no restrictions on the use of this revenue.

##### **3. MOTOR FUEL TAX**

The State imposes a 19 cent tax on each gallon of gasoline sold at retail. Local governments receive 41.6% of the collections, after deductions for certain programs and administrative costs. Municipalities receive 49% of local government distributions. The tax revenue is distributed according to population. For the period beginning May 1, 2003 through April 30, 2004, the Illinois Municipal League estimates the per capita Motor Fuel Tax distribution to be \$28.60. This revenue is restricted to street related maintenance and improvements and projects must be approved by the Department of Transportation.

#### 4. PERSONAL PROPERTY REPLACEMENT TAX

This revenue is derived primarily from the income tax on corporations. It replaces the revenue received from the tax on corporate personal property prior to 1979.

Municipalities, exclusive of Cook County municipalities, receive a share of the distribution of these funds based upon the amount of corporate personal property tax collected for them in 1977 in proportion to the total amount of personal property tax collected in the state outside of Cook County. Municipalities in Cook County receive a share of the distribution of the funds based upon the amount of corporate personal property tax collected for them for 1976 in proportion to the total amount collected in Cook County. For the period beginning May 1, 2003 through April 30, 2004, the Illinois Municipal League estimates the statewide distribution to be \$700 million. This represents a decrease of 7.1% over the previous year.

Each municipality should also receive from the road district covering the municipality a portion of each personal property replacement tax check issued to the road district, so long as the municipality received a portion of the road and bridge levy in 1979. At the same time, municipalities must return a portion of each personal property replacement tax check to their respective libraries if a library tax was levied on or before December 31, 1978.

This revenue is restricted in its use to the retirement of general obligation debt that was incurred on or before December 31, 1978, pension obligations and the municipal library. When these liens are satisfied, the money can then be used for other purposes related to property taxes.

For an explanation of how to calculate the allocation of this money, DCEO has available, upon request, a separate fact sheet on the topic.

#### OTHER SHARED REVENUES

##### 1. ROAD AND BRIDGE TAX

When a Road District levies a road and bridge tax, one-half of the tax collected on property lying within a municipality, in which streets and alleys are under the care of the municipality, must be turned over to the municipality. This revenue must be used for the improvement of roads or streets.

If a municipality does not appropriate this tax revenue for the improvement of roads or streets within one year from the date of receipt, then the unappropriated portion of the tax revenue is to be returned to the Road District Treasurer. This sharing with the municipality of this Road District levy is described in 605 ILCS 5/6-507.

## OPTIONAL LOCAL REVENUES

### 1. PROPERTY TAX

There are 73 levies non-home rule municipalities are authorized to impose to meet operating or capital outlay expenses and 26 levies that are authorized to cover debt service expenses for general obligation debt. Of the 73 authorized levies for operating and capital expenses, 26 can be imposed without referendum. Those non-referendum levies are listed below with the rate limit. Levies that are of a similar type are grouped together under a general heading.

Audit	No limit	65 ILCS 5/8-8-8
Chlorination of Sewage	.02%	65 ILCS 5/11-142-3
Corporate	.25%	65 ILCS 5/8-3-1
Emergency Services & Disaster Operations*	.05%	65 ILCS 5/8-3-16
Fire Protection	.15%	65 ILCS 5/11-7-1
Garbage Disposal	.20%	65 ILCS 5/11-19-4
Harbor Construction	.0125%	65 ILCS 5/11-123-11
Police Protection	.15%	65 ILCS 5/11-1-3
Public Comfort Stations	.0833%	65 ILCS 5/11-70-1
Public Building Restoration	.0333%	65 ILCS 5/11-21-4
School Crossing Guard	.02%	65 ILCS 5/11-80-23
Street & Bridge**	.06%	65 ILCS 5/11-81-2
Street Lighting***	.05%	65 ILCS 5/11-80-5
Working Cash****	.05%	65 ILCS 5/8-7-3

### INSURANCE LEVIES

Tort Judgements, General and Liability	No Limit	745 ILCS 10/9-107
Unemployment	No Limit	745 ILCS 10/9-107
Workers' Compensation	No Limit	745 ILCS 10/9-107

### PENSION LEVIES

Firemen's Pension	No Limit	40 ILCS 5/4-118
Illinois Municipal Retirement Fund	No Limit	40 ILCS 5/7-171
Policemen's Pension	No Limit	40 ILCS 5/3-125
Social Security	No Limit	40 ILCS 5/21-110
Medicare	No Limit	40 ILCS 5/21-110.1

## CAPITAL IMPROVEMENT OR ACQUISITION LEVIES

Public Building Commission Lease	No Limit	50 ILCS 20/18
Lease or Purchase	No Limit	65 ILCS 5/11-76.1-2
Public Benefit (Special Assessments)	.05%	65 ILCS 5/9-2-39
Special Service Area	No Limit	35 ILCS 200/27-25

- \* Rate not to exceed 25 cents per capita.
- \*\* Levy to be reduced and abated in accordance with share received from the road district levy.
- \*\*\* 2/3 vote of the corporate authorities is required to authorize levy.
- \*\*\*\* No tax levy allowed if maximum amount of bonds has been issued under 65 ILCS 5/8-7-2. The purpose of this levy is to allow a municipality to create a separate fund of money to be used to meet ordinary and necessary expenditures in anticipation of receipt of tax money.

The maximum rate limit for certain levies can be raised by referendum. Additionally, several of the above levies may be greater than the maximum limit if the levy was authorized at a higher maximum rate as of 7/1/67. DCEO's Property Tax Rate and Levy Manual should be checked to see if either of these exceptions to the standard maximum rate apply to a particular levy. The Property Tax Rate and Levy Manual, which is revised annually, should also be reviewed to become familiar with the levies requiring a referendum. There may be times when citizens may be willing to authorize a property tax levy for a certain service activity.

For those levies for which there is no rate limit, the levy should be limited to only that amount sufficient to pay expenses for the specified purpose.

### 2. UTILITY TAX

Municipalities are allowed to tax electric, gas and water utilities within the municipality. Utilities that can be subject to a 5% tax on gross sales are gas and water; if the population of a municipality is over 500,000 population the maximum for gas is 8%. The tax on electric is based on the usage of kilowatt-hours as specified in the statutes (declining block rate structure). There are no restrictions on the use of this revenue. (65 ILCS 5/8-11-2) amended 2002.

### 3. VEHICLE LICENSE TAX

Municipalities are allowed to impose a tax on each vehicle owned or operated by a resident or a business in the municipality. There is no limitation on the amount charged. The revenue is to be used for street-related expenditures and in cities and villages of more than 3,000 inhabitants up to 35% of the collections may be used for police salaries for regulating traffic.  
(65 ILCS 5/8-11-4)

4. MUNICIPAL AUTOMOBILE RENTING OCCUPATION TAX

Municipalities are authorized to impose a tax on businesses renting automobiles in the municipality at a rate not to exceed 1% of the gross receipts from such business. A municipal ordinance or resolution imposing the tax is to be sent to the Illinois Department of Revenue. The Department will collect and enforce the tax. There are no restrictions on the use of this revenue. (65 ILCS 5/8-11-7)

5. MUNICIPAL AUTOMOBILE RENTING USE TAX

Municipalities are authorized to impose a tax upon the privilege of using an automobile that is rented from an agency outside Illinois, and which is titled or registered with an agency of this State's government, at a rate not to exceed 1% of the rental price of such automobile. A municipal ordinance or resolution imposing the tax is to be sent to the Illinois Department of Revenue. The Department will collect and enforce the tax. There are no restrictions on the use of this revenue. (65 ILCS 5/8-11-8)

6. REPLACEMENT VEHICLE TAX

Municipalities are authorized to impose a tax of \$50 on any passenger car purchased within the municipality by or on behalf of an insurance company to replace a vehicle of an insured person in settlement of a total loss claim. A municipal ordinance imposing the tax is to be sent to the Illinois Department of Revenue. The Department will collect and enforce the tax. There are no restrictions on the use of this revenue. (65 ILCS 5/8-11-9)

7. MOTOR VEHICLE LEASING TAX

Municipalities are authorized to impose a tax upon the privilege of leasing motor vehicles within the municipality on a daily or weekly basis in an amount not to exceed \$2.75 per vehicle per rental period specified in a lease agreement. The ordinance or resolution imposing any such tax shall provide for the means of its administration, collection and enforcement by the municipality. There are no restrictions on the use of this revenue. (65 ILCS 5/8-11-11)

8. FOREIGN FIRE INSURANCE TAX

Municipalities are authorized to impose a tax on insurance premiums generated from within the municipality and received by firms incorporated outside this State. The tax is not to exceed 2% of the gross receipts received from fire insurance. The Illinois Municipal League administers this tax for many municipalities. This tax is not a true source of revenue, in that officials of the municipality do not control the expenditure of this money. The municipal treasurer is to pay the sums received from the insurance companies to the treasurer of the fire department. If there is no fire department treasurer, the municipality is to pass an ordinance providing for the election of fire department officers by members of the department. Municipal authorities control over the expenditure of this revenue was removed January 1, 1990 by a change in the statute. (65 ILCS 5/11-10-1)

## 9. AMUSEMENT TAX

Municipalities are authorized to license, tax, and regulate all athletic contests and exhibitions carried on for profit. This tax is to be based on the gross receipts derived from the sale of admission tickets. The tax is not to exceed 3% of the gross receipts. There are no restrictions on the use of this revenue. (65 ILCS 5/11-54-1)

## 10. COIN-OPERATED DEVICE TAX

Municipalities are provided the authority to impose taxes or license fees on coin-operated devices as described in (35 ILCS 510/1). There is no limitation on the amount of such tax. License fees cannot be increased until notice of a public hearing on the proposed increase is given and such hearing has been held. There are no restrictions on the use of this revenue. (65 ILCS 5/11-55-1)

## 11. HOTEL / MOTEL TAX

Municipalities are permitted to tax hotels/motels at a rate not to exceed 5% of gross rental receipts. Revenue from this tax is restricted to the promotion of tourism and conventions within the municipality. (65 ILCS 5/8-3-14)

Home rule municipalities are not bound by any of the restricted uses for the preceding local tax revenues except the restrictions on #8 - the Foreign Fire Insurance Tax. Home rule municipalities may also tax alcoholic beverages, cigarettes or tobacco products, gasoline, and the sale or transfer of real property.

## 12. LICENSE AND PERMIT FEES

Municipalities have the authority to impose license and permit fees on business activities where inspection and regulation of the activity are necessary to ensure the health, safety, and welfare of the community. License and permit fees must be reasonably related to the municipality's administrative expenses for inspection and any other regulatory activities. License and permit fees are commonly imposed for enforcing the Liquor Control Ordinance 235 ILCS 5/4-1, regulating certain businesses 65 ILCS 5/11-42-1 through 5/11-42-8, regulating building construction 65 ILCS 5/11-30-1, regulating the behavior of animals 65 ILCS 5/11-20-9, and regulating the sale of beverages and food. (65 ILCS 5/11-20-2)

## 13. FRANCHISE FEES

Franchise fee revenue results from a contractual agreement between a municipality and a private business. The business is permitted the privilege of regular access to municipal property and use of municipal services, so that it may operate, in return for some form of compensation.

The most common franchise fee agreements are with investor-owned utilities. Typically, the franchise agreement results in the municipality receiving the utility service free and/or at a discount rather than receiving a cash payment.

Franchise fees may involve solicitation of bids among competing businesses to determine which business will have the exclusive privilege to provide the service or product within the municipality. Franchise fees are commonly imposed on cable television, solid waste collection, and taxi service. Federal law prescribes the nature of municipal regulation of cable television owners and limits franchise fees to 5% of gross revenue.

#### 14. FINES

Fines can be imposed for violating a municipal ordinance. Municipalities can also receive revenue from fines imposed for state traffic law violations that occur within the corporate limits, if the arrest is made by the municipal law enforcement authorities. (65 ILCS 5/1-2-8 and 625 ILCS 5/16-105)

#### 15. INVESTMENT INCOME

A prudent investment strategy can yield significant revenue. All money not immediately needed must be invested within two working days in an interest-bearing account.

(30 ILCS 225/1) Municipalities are authorized to combine cash balances from more than one fund for investment. However, money combined for such purposes must still be accounted for separately, with earnings apportioned to the appropriate fund. (30 ILCS 235/4)

#### 16. USER CHARGES

Imposing user charges covers the cost of providing specific services to the public by municipalities. They are commonly imposed for the operation of an enterprise such as water, sewer, parking, etc. An enterprise must be operated like a business and user charges should cover all operating expenses. Property taxes should not subsidize a utility or other enterprise.

#### 17. SIMPLIFIED MUNICIPAL TELECOMMUNICATIONS TAX

Municipalities are authorized to impose a tax on businesses originating or receiving telecommunications or retailers engaged in the business of transmitting such telecommunications within a municipality at a rate not to exceed 6% (7% in Chicago) of the gross receipts from such business. A municipal ordinance or resolution imposing the tax is to be sent to the Illinois Department of Revenue. The Department will collect and enforce the tax. There are no restrictions on the use of this revenue. (65 ILCS 5/8-11-7)