

Request For City Council Action

Date: February 10, 2015

Agenda Section: General Business No. 6	Originating Department: City Manager's Office
Item: Discussion of Potential New Revenue Sources and Uses of Funds Related to the City of Carbondale FY 2016 Budget No. 6.6	Approved:

Background:

At the November 6, 2014 and the January 20, 2015 Special City Council meetings, discussions were held regarding revenues and expenditures for the current fiscal year as well as the 5-year projections. The discussion included ways to reduce expenditures and generate new revenues.

New Revenue Sources

Food and Beverage Tax - Based on information obtained from a 2011 voluntary survey of municipal treasurers, 26 communities in Illinois have implemented a food and beverage tax. The average tax rate was found to be 1.5%. Lake Bluff had the highest rate at 5% and Oak Lawn and Urbana had the lowest rate of 0.5%. Based on the most recent sales tax information available, a 1/4% tax would generate approximately \$200,000 per year in Carbondale. This tax is generally imposed in increments of 1/4% and must be collected locally much like the hotel/motel tax.

Package Liquor Tax - Based on information from the same survey, 10 communities have implemented a package liquor tax. The average tax rate was found to be 2.0%. Park Ridge and Normal had the highest rate at 4% and Urbana had the lowest rate of 0.5%. Based on the most recent sales tax information available, a 1% tax would generate approximately \$125,000 per year in Carbondale. This projected amount does not include sales of package liquor at grocery stores as they report combined sales of package liquor with general food sales. Staff estimates an additional 20% could be added for grocery store sales increasing the projected amount to \$150,000. This tax is generally imposed in increments of 1/4% and must be collected locally much like the hotel/motel tax.

Amusement/Entertainment Tax - This is a tax imposed on amusement/entertainment wherein an admission fee is charged. Examples include movie theatres, live theatre performances, sporting events (exclusive of K - 12 events) and concerts. Based on information from the same survey, 16 communities have implemented an amusement/entertainment tax. The tax can be imposed as a percentage of gross ticket sales, flat fee per ticket or as a percentage. The majority of the communities responding to the survey utilize a percentage with the average being 4.6%. St. Charles had the highest rate at 10% and five communities tied with the lowest rate of 1.0%.

Currently there is very little quantifiable information available to estimate what an amusement/entertainment tax would generate in Carbondale. When the City annexed Southern Illinois University, the City agreed it would not implement a ticket tax for the first 5-years following annexation. That period has since expired. Based on information available from ticket sales to sporting events only on the SIU campus during FY2014, a total of 95,000 tickets were sold for attendance at football, men's and women's basketball, softball, baseball and volleyball events. The average ticket price for events varies due to the availability of season passes and single event tickets. The gross ticket sales generated \$1.2 million. For every 1.0% tax imposed, \$12,000 in revenues could be generated.

Engineering Approval Obtained	Finance Approval Obtained	Legal Approval Obtained	Approval Obtained	Manager's Approval Obtained
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Council Action: Motion by _____ 2nd by _____ to _____

This tax is generally imposed in increments of 1.0%. In comparison, if a flat fee of \$0.25 per ticket were assessed, a total of \$23,750 in revenues would be generated. The information on tickets sales for theatre and concert events occurring on the campus as well as both AMC Theatres is still being obtained. Other venues within the City that would be required to collect an amusement/entertainment tax include the Varsity Center for the Arts, Copper Dragon, and any bar/night club providing live entertainment for which a cover charge or admission fee is collected. Information relating to ticket sales for these venues is also being obtained. This tax must be collected locally much like the hotel/motel tax.

If any of these locally imposed taxes are put in place, it will be necessary to add one new staff person to the Finance Department to process the returns. This will require an appropriate salary and benefits be subtracted from any revenues generated.

Use of New Revenues

During the previous discussions, some City Council members indicated these new revenues should be reserved and dedicated solely to new or special projects or programs. The Finance Department staff and the City Manager continue to have concerns about this reserving or dedicating revenues in light of the ongoing fiscal concerns previously stated for this and future fiscal years. Suggestions have been made that cuts to staff will generate savings. Savings can be realized but services will be reduced and programs eliminated. Reductions in police officers will result in reduced response times, reductions in firefighters will result in increased overtime, reductions in the Finance Department staff will result in concerns for financial safeguards (auditing, checks and balances) and the inability to collect new tax revenues, reductions in Building and Neighborhood Services will force rental inspections to be changed from a 3 year to a 4 or 5 year cycle, reductions in Planning staff will result in delayed approval of site plans, subdivision plats, and preparation of zoning cases, reductions in Engineering staff will result in increased costs for outside design contracting and project construction oversight and reductions in Public Works staff will mean less crews available to repair/maintain streets and the elimination of street sweeping. These departments have already been cut over the last five plus years and are operating with less staff but doing the same amount of work, if not more.

There are a number of unfunded projects totaling hundreds of millions of dollars contained in the Five Year Capital Improvement Program that are proposed for the General Fund. Some of the items included on this list are Open Space Development (bike/pedestrian routes, bike/pedestrian bridge over Mill Street), Public Buildings (equipment storage building for Fire Station #1, public works garage improvements and building replacements), Streets (over 50 projects), Sidewalks (ongoing annual program needing at least \$50,000 annually just to maintain and repair), Traffic Signals (upgrades including audible signals for the handicapped), and Special Projects (new signage at entrances to community, renovations to brick walkway immediately adjacent to the west side of the CN railroad tracks from Walnut Street to Jackson Street).

With the creation of a new Downtown Master Plan moving into the next phase which will include the hiring of a consultant, staff estimates this contract to be no less than \$100,000 and could easily become \$150,000 depending on additionally required studies. This does not include any funding for proposed streetscaping which will cost over \$200,000 per block to repair/replace sidewalks, install landscaping, install lighting and bury overhead utility lines or relocate to the adjacent alleys or municipal parking lots. During the discussion to determine the area to include in the Downtown Master Plan, the areas parallel to IL Route 13 were excluded although they received much discussion as areas that would benefit from a similar planning exercise. Staff estimates this planning work at up to \$100,000, depending on the scope of work desired.

With the recent rollout of the gigabit capacity by Frontier, there is a need to prepare an overall plan on how to expand the availability into more residential areas and for future communication infrastructure development. If the City is going to take the lead and direct where future expansions of this infrastructure should be placed, a plan for communication infrastructure development must be created. Outside estimates indicate this planning work in the range of \$30,000 - \$80,000.

Guidance Required from the City Council

Based on the five year budget projections done during the FY 2015 Budget process, FY2016 is projected to run a \$780,000 deficit. However based on revised expenditure and revenue forecasts that have recently been made, the current

projected deficit has been reduced to approximately \$275,000. As of today, 30% of the proposed FY2016 General Fund expenditure budget has been reviewed and expenditures are trending in the same direction.

The City Council must take a hard look at how to increase revenues to cover current operating expenses and the expense increases forecasted for future fiscal years before it creates new programs and special projects. At this point in the budget preparation, staff desires to receive guidance regarding how the Council desires to proceed. Three options are proposed to lead the discussion.

- 1) Is the Council willing to consider the creation of additional revenue sources? If yes, will the Council limit the use of these revenues to new projects and programs or can a portion of the revenues be used to offset the \$275,000 deficit noted above?
- 2) If the Council is unwilling to consider the creation of additional revenue sources, then guidance is requested in where the Council is willing to allow staff to look for potential reduction in services thereby reducing overall expenditures.
- 3) A combination of the two. If new revenues are created, what new programs does a majority of the Council desire to be created and simultaneously what existing services is the Council willing to consider for reductions or elimination?

Following the discussion, a consensus of the Council is needed on the options presented so that staff can prepare more detailed revenue and expenditure estimates which will be included in the proposed FY2016 budget. Tonight's meeting is the only regularly scheduled meeting in February and there are only two meetings in March (3rd and 24th) with the March 24th meeting being the required Public Hearing on the proposed FY2016 budget. The budget calendar indicates the proposed budget will be delivered to the City Council for internal review on March 16 which means any significant changes in revenues and/or expenditures need to be addressed no later than the March 3 City Council meeting.

Recommended Action:

The City Council is requested to hold discussions on creating additional revenues, on creating any proposed new programs and special projects and on identifying potential areas for reductions in services.