

2021 Non-Home Rule Sales Tax Referendum Information

Most people will agree that a clean, freshly black topped street does wonders for the overall appearance of their neighborhood. A well-maintained street will add to the beauty, quality of life, resident safety, and curb appeal of homes in your neighborhood.

Unfortunately, despite the Village's best efforts, Spring Grove is falling behind in the battle to maintain our local streets. This is due to a significant increase in the cost of materials and a decade long shortfall in revenue coming from the state. The bottom line is that without new sources of revenue, the Village's ability to provide core services, attract new business development, and maintain the quality of life standards our residents and businesses expect will be severely impacted.

There is a solution. In April, you will be asked to approve a referendum which will add a 0.75% sales tax on most purchases within the Village. That means for every \$100.00 of purchases made in our town, \$0.75 that cannot be touched by the county or state will go toward vital infrastructure projects in your community. *If this measure passes, the Village will receive enough funding to double the pace of our neighborhood road improvement program without dipping into other infrastructure funds.*

Many of our surrounding communities have implemented this additional sales tax for the purpose of funding local projects. Did you know when you go to Walmart or JCPenney you are helping Johnsburg maintain their Village streets? When you have dinner along the Riverwalk or shop at Meijer or Kohl's you are paying an additional tax that helps McHenry maintain their streets. Like these communities, the Village's proposal seeks to raise funds without putting the burden completely on the backs of our residents. When someone from Richmond or Fox Lake goes to our Jewel, or a traveler heading north for vacation stops at McDonald's or for gas, they will be helping maintain your streets.

Every member of the Village Board is also a member of this community. We are very much aware that the topic of new taxes is not a welcome one, but the need is real and great. This proposal provides a solution without the full burden being placed on your shoulders. The Board is committed to maintaining the incredible quality of life standards we have all come to enjoy. Should this referendum fail, we will have to evaluate other options to fund our infrastructure. These other options are sure to have a greater impact on our residents.

The following pages contain details on current funding shortfalls, how the sales tax would work, comparisons to other McHenry County tax rates, and current revenue sources. There are also answers to Frequently Asked Questions.

How Does Sales Tax Work. Every purchase of general merchandise, titled and registered vehicles, and grocery-type foods is taxed. Groceries and certain medical merchandise (qualifying food and drugs) are taxed at 1% of the purchase price; general merchandise and titled/registered vehicles are taxed at a minimum rate of 7.00% in the State of Illinois and that is the rate currently charged in the Village of Spring Grove. Municipalities automatically receive 1% of the purchase price of these items, while other portions of the sales tax support the County and the State. If you spend \$100 on taxable merchandise in the Village of Spring Grove, the Village receives \$1 in sales tax revenues.

Sales Tax Rates of Other McHenry County Municipalities

- The Village of Johnsburg has an additional 0.50% municipal sales tax.
- The City of McHenry has an additional 0.75% municipal sales tax.
- The City of Crystal Lake has an additional 0.75% municipal sales tax.
- The Village of Algonquin has an additional 0.75% municipal sales tax.
- The City of Woodstock has an additional 1.00% municipal sales tax.
- The Village of Lake in the Hills has an additional 1.00% municipal sales tax.

Infrastructure Improvements and Repairs. The Village needs important infrastructure improvements that will affect the quality of life standards that our residents and businesses have come to expect. The roads need to be maintained, repaired, and reconstructed to be kept safe. Motor fuel tax receipts are insufficient to meet these needs.

The sewer and water systems are a viable source to the Village's economic growth. The sewer system needs to be repaired or replaced and the water system expanded in order for the Village to attract new businesses.

Roads Repairs. The Village of Spring Grove has approximately 55 miles of roads to maintain with some roads not being resurfaced in 27 years. The average life expectancy of a road is 15 years. 41% of the roads maintained by the Village are over the average life expectancy with another 12% coming up on the average. The Village has 8 miles of road that are 20 years or more old; 14 miles that are 15-19 years old, and another 12 miles that are 10-14 years old. In the past, the Village was able to repave 2-3 miles of roads a year but is now faced with the daunting task of trying to budget to pave 1 mile of road a year due to the exorbitant cost of asphalt and other budgetary limitations.

Water and Sewer Expansion. An integral part in attracting new businesses is sewer and water along commercial corridors. The Village was fortunate to have the water tower paid for by Jewel when it was built but the Village has not been able to expand the water system down Route 12 and into our commercial and industrial areas, which has limited growth. Many retail and industrial businesses prefer to be connected to Village sewer and water and those over 12,000 sq. ft. are required to provide a fire suppression system. The lack of having water available to vacant or unoccupied properties has limited our growth. Expanding water to these areas will help attract new businesses and fill some of the vacant properties along Rt 12.

Revenue Sources. The Village relies heavily on revenues coming from income, property, utility, and sales taxes. Seventy-five percent of the Village's total general fund revenue comes from these four sources to provide our community with police protection, parks and road maintenance, snow plowing, capital infrastructure improvements, and other services.

State Income Tax: These funds are controlled by the state and the amount the Village receives will not increase by any significant amount. In fact, they might actually decrease as state legislators routinely look to plug their own budget holes.

Property Tax: This last tax year only 1.85% of your total property tax payment went to Spring Grove Village. That amounts to the average household contributing a little over \$200.00 per year to the Village's general fund. (Another 2% went to the pension fund, which is really controlled by the state). **THE VILLAGE BOARD IS NOT CONSIDERING ANY INCREASE IN YOUR PROPERTY TAX LEVY IN ORDER TO FUND INFRASTRUCTURE IMPROVEMENTS.**

Utility Tax: The Village, like many municipalities in Illinois, has a public utility tax of five percent on gross receipts from the sale of electric, natural gas and telecommunications.

Sales Tax: The only remaining real possibility for an increase in Village revenue is from sales tax. The Village now receives some taxes from gaming activities and while that helps, it is not nearly enough to fund the needed projects each year. Therefore, the only real possibility of funding the needed infrastructure improvements is through a general sales tax increase from 7% to 7.75%.

Non-Residents Help Fund This. A good portion of Village retail business comes from people who do not live in Spring Grove. Obviously, these folks use our roads, too.

The beauty of a general sales tax increase is that the tax is shared. Spring Grove residents would incur only a portion of the cost, just to the extent they shop in Spring Grove.

Questions & Answers

Why is there going to be a referendum to increase the sales tax in Spring Grove from 7% to 7.75%?

Municipalities like Spring Grove can increase the sales tax rate of general merchandise on purchases made within their legal boundaries. The Village of Johnsburg and City of McHenry have already increased their sales tax rates. The Village of Spring Grove is asking voters to consider a 0.75% Non-Home Rule Sales Tax, which would bring the Village's sales tax rate to 7.75%. The increased rate would apply on purchases of general merchandise, grocery, and prescription drugs only **excluding titled and registered vehicles**. Sales tax revenue is currently the largest single source of revenue for the Village, about \$645,000 annually from purchases made within the Village, which comes from the 1% municipal tax currently in place. If the referendum is approved by the voters, the tax would apply to items purchased by residents and non-residents and the additional revenue to the Village from sales tax would provide about \$483,750 per year.

Why does the Village need to raise the sales tax rate?

The Village of Spring Grove is experiencing rising operating and capital costs that are outpacing flat or declining revenue. Although the Village is constantly reviewing its cost structure and seeking ways to increase its limited sources of revenue, the Board of Trustees has determined that additional revenue is needed to maintain the quality of its present level of services and maintain its infrastructure.

Why should I pay more in sales tax when my property tax is so high?

The Village gets very little from your property tax bill. For example, if your bill is \$10,000, the Village gets about \$400, of which more than half goes to the state mandated police pension fund. The rest of your tax bill goes to about 9 other taxing authorities.

How much would this cost me?

It depends, of course, on how much you spend in the Village. To put things in perspective, a gallon of milk would cost 2 cents more. For every \$20 you spend here, that would only be 15 cents more. If you spent \$2,000 during the year within the Village, that is only \$15 more. You can clearly see that since sales taxes are also paid by non-residents, your cost to improve our infrastructure is not very much.

Is it cheaper to raise property taxes?

No. Property taxes would have to increase by \$268 for a home worth \$350,000 (\$388 for a home worth \$500,000, etc.) to yield the same benefits as the proposed sales tax hike. Comparing this to the preceding paragraph on how much this would cost you, a household would have to spend over \$35,000 during the year within the Village to make this equivalent.

We pay 7% sales tax now. Where does it all go?

The State gets 5%, the Village 1%, the RTA 0.75%, and the County 0.25%.

Why does the Village need the money? Doesn't it have enough?

The Village operates on a total budget of about \$3.5 million per year. The Village's resurfacing budget, fluctuates annually. Cost is outpacing revenue. Without this increase the Village will fall behind even further. With the increase, the Village will have the ability to double the pace of resurfacing projects.

How much new money would this bring in?

Based on current sales tax collections, about \$483,750 per year. This would be enough to double the pace of resurfacing projects without affecting other needed improvements to our infrastructure.

Who pays sales tax?

Anyone buying eligible items in Spring Grove. Many Spring Grove businesses draw customers from surrounding areas so the tax burden will be shared with non-residents, just as neighboring communities draw on your business to fund their projects.

If part of the financial issue is the rising costs of employee pensions, why doesn't the Village restructure its pension plan and/or migrate employees to 401k programs like what has happened in the private sector?

The benefit levels and structure of the employee pensions are set and mandated at the state level and are subject to provisions in the Illinois Constitution. As a result, the Village has no ability to alter the benefit levels or structure of the pensions. The state has implemented new benefit levels for new employees that may help the Village long-term, but at this time the Village's pension contributions are outpacing our revenues.

How do we know the increase in the sales tax will produce the amount necessary to help pay for the infrastructure needs?

The Village knows more accurately how much we will raise in sales tax dollars based on reports we received from the Illinois Department of Revenue. Based on the accuracy of these reports in the past, we are confident that the new sales tax will bring a minimum of \$483,750 per year.

If the referendum passes and the Village imposes the 0.75% sales tax, will there be a need in the future to raise taxes again?

The Village will continue to feel the pressure of reduction in state shared revenues, rising pension costs, changing market conditions and other pressures. However, the sales tax increase is expected to be enough to fund the Village's capital obligations for the foreseeable future.

When would the sales tax increase take effect?

The increase could be effective late summer or fall of 2021.

What happens if I vote no?

If the referendum fails, it is not clear how our infrastructure will be maintained on the schedule designed for their life spans. The Village Board would be able to fund its basic operations but would be hard pressed to find extra revenue for future infrastructure projects. This may result in deteriorating roadways, inadequate sewer system, lack of commercial and industrial growth and possible declining property values. If the Village Board also decided to cut expenses to free up money, they would be eating into an already lean operation.