

ALL DISTRICTS

VILLAGE OF LOMBARD
REQUEST FOR BOARD OF TRUSTEES ACTION
For Inclusion on Board Agenda

 X Resolution or Ordinance (Blue) *Waiver of First Requested*
 Recommendations of Boards, Commissions & Committees (Green)
 Other Business (Pink)

TO: PRESIDENT AND BOARD OF TRUSTEES

FROM: Scott Niehaus, Village Manager

DATE: March 24, 2025 (COW)(B of T) April 3, 2025

TITLE: **AN ORDINANCE IMPLEMENTING A MUNICIPAL GROCERY
RETAILERS' OCCUPATION TAX AND A MUNICIPAL GROCERY
SERVICE OCCUPATION TAX**

SUBMITTED BY: Timothy Sexton, Director of Finance

BACKGROUND/POLICY IMPLICATIONS:

See attached memo and FAQ on the proposed 1% local grocery tax. The proposed local grocery tax is simply replacing the 1% state grocery tax that is being eliminated. The State of Illinois will be administering the municipal grocery sales tax for all municipalities that have adopted a municipal grocery tax. Currently, the Village generates approximately \$1 million to \$1.3 million in annual revenue from this tax.

At the meeting on March 31, 2025, the Finance and Administration Committee discussed and voted to recommend that the Village Board approve the proposed ordinance implementing a 1% municipal grocery retailers' tax and municipal grocery service occupation tax, effective January 1, 2026.

Approval of the attached Ordinance by the Village Board of Trustees is required to adopt the proposed 1% municipal sales tax on grocery items to replace the current 1% grocery tax.

Review (as necessary):

Village Attorney X _____ Date _____
Finance Director X *Sexton* _____ Date 4/1/25
Village Manager X _____ Date _____

NOTE: All materials must be submitted to and approved by the Village Manager's Office by 12:00 noon, Wednesday, prior to the Agenda Distribution.



To: Finance & Administration Committee
From: Tim Sexton, Finance Director
Date: April 1, 2025
Subject: Municipal Grocery Tax

The Finance & Administration Committee met on Monday, March 31 to discuss the 1% municipal sales tax on grocery items, as outlined in the attached memo and attachments that went to the Committee.

There was vigorous discussion among the Committee members regarding this item. The general feeling was that none of the Committee members were eager about making a recommendation to re-institute this tax. Below were some of the items discussed.

- There was some discussion about the nature of the tax being regressive. One piece of information that was not known until after the Committee meeting is that per federal law, residents that use SNAP benefits to purchase groceries do not pay sales tax for anything purchased with SNAP. This significantly reduces the regressive nature of this tax.
- Members looked at the list of other towns that have adopted the tax, and it was noted that currently not many surrounding communities have adopted the tax yet. We did verbally discuss some of the other towns that were currently discussing the tax, as well as the number of home rule communities that were adopting an additional home rule sales tax instead of the sales tax on groceries.
- There was extensive discussion regarding the Village's other revenues, and it was noted that there is a good chance that revenues have peaked for this economic cycle and would either be flat or decline over the near to intermediate future.
- Overall, the members that voted in favor of the tax stated that while none of them were eager to continue this tax, Lombard provides very good services to residents, and for that to continue, this tax needs to continue in order to fund those services as this makes up 2.8% of General Fund Revenue.

The Finance & Administration Committee voted 3-1 to recommend that the Village Board approve the proposed ordinance implementing a 1% municipal grocery retailers' occupation and municipal grocery service occupation tax, effective January 1, 2026.



To: Finance & Administration Committee
From: Tim Sexton, Finance Director
Date: March 24, 2025
Subject: Municipal Grocery Tax

Overview:

Staff is seeking a recommendation from the Finance and Administration Committee on the proposal to establish a 1% municipal sales tax on grocery items to replace the current 1% grocery tax that the state eliminated, effective January 1, 2026.

Background:

The grocery tax in Illinois refers to the 1% sales tax on groceries that has been in place since the 1990 sales tax reform. The 1990 reform eliminated state taxation on groceries but allowed for a 1% grocery tax distributed to local governments. It also standardized tax collection, preventing a patchwork of local grocery taxes administered independently by municipalities. The proceeds of the tax are distributed to local governments by the state.

In 2024, Public Act 103-0781 was signed into law, eliminating the 1% sales tax on retail grocery sales, effective January 1, 2026. The law also grants municipalities the authority to implement a local sales tax on grocery items. Currently, the Village generates approximately \$1 million to \$1.3 million in annual revenue from this tax.

Each year during the budget process, staff updates the Multi-Year Financial Forecast (MYFF). Attached are two MYFF Charts presented at the 2025 Budget Workshop on September 5, 2024:

- **Chart A** includes the grocery tax revenue.
- **Chart B** reflects projections without \$1.3 million in annual grocery tax revenue.

As of February 2025, according to the Illinois Policy Institute, over 45 municipalities throughout the State have already passed an Ordinance to impose a local grocery tax to replace the state tax. Without this tax, local governments could face budget shortfalls. Downers Grove and Westmont both passed a 1% Grocery Tax Ordinance in February

2025 and additional municipalities in DuPage County are expected to establish this tax prior to January 1, 2026.

Village Board approval of an Ordinance would be required to impose a municipal grocery retailers' occupation tax and a municipal grocery service occupation tax (commonly referred to as a grocery sales tax) at a rate of 1%. This local tax is simply replacing the 1% state grocery tax that is being eliminated. Consumers will not see a difference in grocery prices due to the new local grocery tax. The State of Illinois will be administering the municipal grocery sales tax for all municipalities that have adopted a municipal grocery tax. The 1% tax would be imposed on the gross receipts on the sale of groceries at retail and the sales of service that include the transfer of groceries as an incident to the sale of service. A copy of the ordinance must be filed with the State prior to October 1, 2025, to ensure the effective date of January 1st.

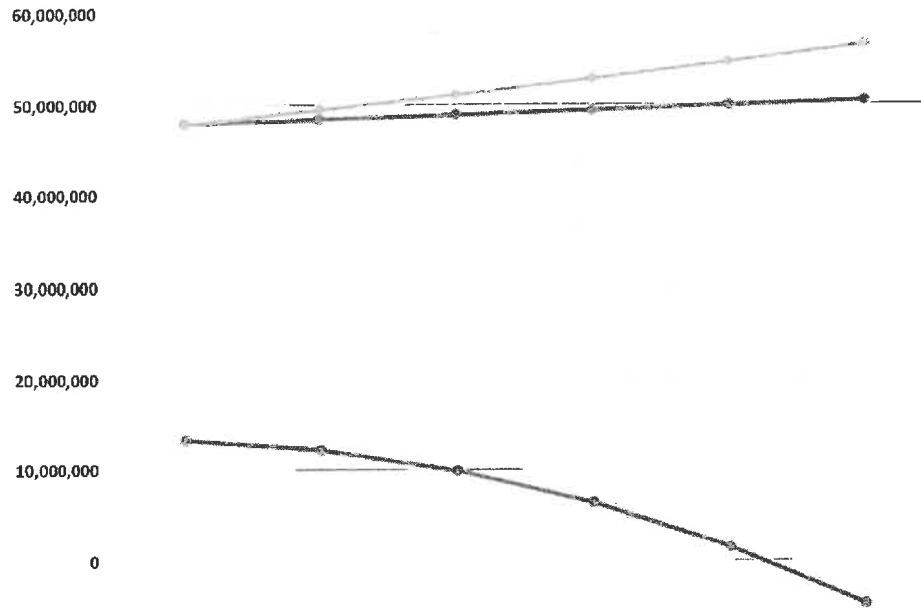
Recommendation:

Staff requests that the Finance & Administration Committee review and provide a recommendation to the Village Board regarding the proposed municipal sales tax on grocery items to replace the current 1% grocery tax that the state eliminated, effective January 1, 2026.

Chart A

**PROJECTIONS (As of September 2024) WITH NO CHANGES
GROCERY TAX INCLUDED**

Current 5 Year Financial Forecast



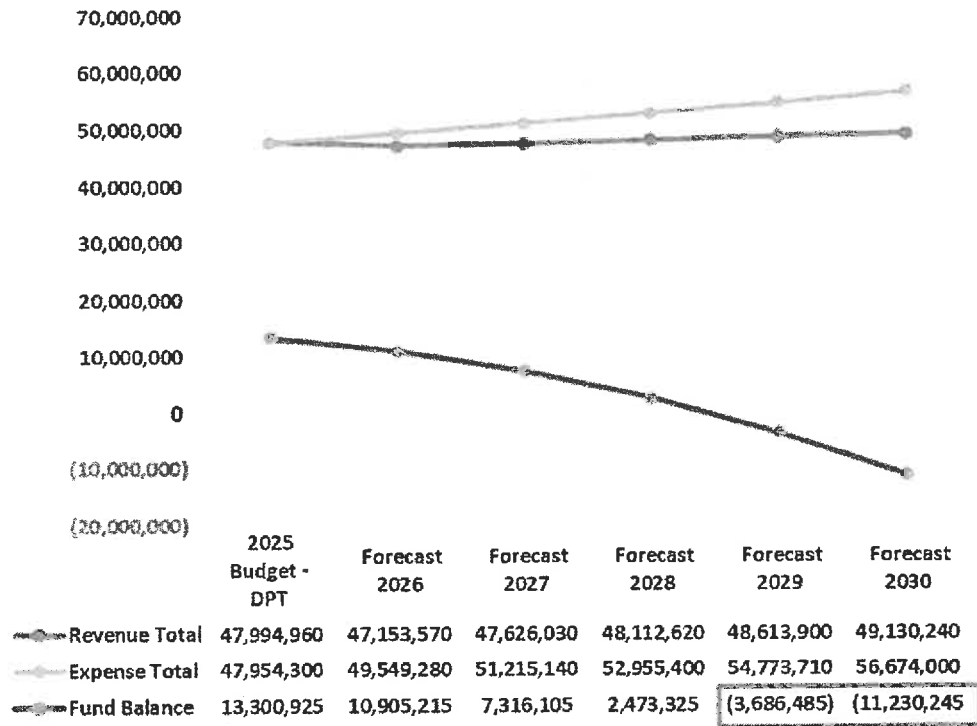
Forecast Assumptions - Conservative Budgeting	
<i>Property tax</i>	3.000%
<i>Sales Tax</i>	0.000%
<i>Utility Tax</i>	0.000%
<i>Interest</i>	3.000%
<i>Personnel</i>	4.000%
<i>Inflation</i>	3.000%
<i>Health Insurance</i>	7.500%
<i>Utilities</i>	3.000%

	2025 Budget - DPT	Forecast 2026	Forecast 2027	Forecast 2028	Forecast 2029	Forecast 2030
Revenue Total	47,994,960	48,453,570	48,926,030	49,412,620	49,913,900	50,430,240
Expense Total	47,954,300	49,549,280	51,215,140	52,955,400	54,773,710	56,674,000
Fund Balance	13,300,925	12,205,215	9,916,105	6,373,325	1,513,515	(4,730,245)

Chart B

PROJECTIONS (As of September 2024)
WITHOUT GROCERY TAX STARTING JANUARY 1, 2026

Current 5 Year Financial Forecast Without Grocery Tax



Forecast Assumptions - Conservative Budgeting	
<i>Property tax</i>	3.000%
<i>Sales Tax</i>	0.000%
<i>Utility Tax</i>	0.000%
<i>Interest</i>	3.000%
<i>Personnel</i>	4.000%
<i>Inflation</i>	3.000%
<i>Health Insurance</i>	7.500%
<i>Utilities</i>	3.000%

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<u>Approved Grocery Tax Ordinance</u>	<u>Others</u>
Per Illinois Policy Institute article 1/16/25, 46 Towns Have Passed A Grocery Tax. Is Your Town Next?	Champaign chose to instead increase its sales tax starting in 2026
Bannockburn Martinsville	Wood Dale IL motion failed; January 16, 2025
Bethany Minooka	Naperville July 1st sales tax increase from 7.5% to
Burlington Nokomis	Crystal Lake did a HR sales tax recently
Carlinville Normal	Oswego is a no because they have bonds rolling off
Central City Odell	
Cerro Gordo Odin	
Cobden Olney	
Coffeen Palatine	
Diamond Park City	
Dixon Pekin	
East Peoria Petersburg	
Elizabeth Raymond	
Fairfield Roberts	
Farmer City Sandoval	
Fisher Sherman	
Georgetown Smithton	
Harrisburg Southern View	
Highland Stockton	
Hillsboro Wabash County	
Illiopolis West Frankfort	
Lexington Williamsville	
Marengo Witt	
<u>Markham</u>	
<u>Recently Approved</u>	
Downers Grove 2/11/2025	
Westmont 2/20/2025	

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Frequently Asked Questions (FAQ) on Grocery Tax in Illinois

1. What is the grocery tax in Illinois?

The grocery tax in Illinois refers to the 1% sales tax on groceries that has been in place since the 1990 sales tax reform. The 1990 reform eliminated state taxation on groceries but allowed for a 1% grocery tax distributed to local governments. It also standardized tax collection, preventing a patchwork of local grocery taxes administered independently by municipalities. The proceeds of the tax are distributed to local governments by the state.

2. When is the state grocery tax ending?

The Illinois state grocery tax of 1% is set to be eliminated effective January 1, 2026, as per Public Act 103-0781, and provides municipalities the authority to enact a local sales tax on grocery items.

3. Will local governments impose their own grocery tax?

As of February 2025, according to the Illinois Policy Institute, over 45 municipalities throughout the State have already passed an Ordinance to impose a local grocery tax to replace the state tax. Without this tax, local governments could face budget shortfalls. Downers Grove and Westmont both passed a 1% Grocery Tax Ordinance in February 2025 and additional municipalities in DuPage County are expected to establish this tax prior to January 1, 2026.

4. Do municipalities currently have the authority to impose grocery taxes?

Under current law, municipalities do not have the authority to impose grocery taxes unless granted by state legislation. The new law allows municipalities to establish their own grocery tax up to 1%, starting in 2026.

5. Will consumers see a difference in grocery prices due to the new local grocery tax?

NO, consumers are already paying the 1% state grocery tax. The local tax is simply replacing the state tax.

6. How will the revenue from the grocery tax be used?

The Village of Lombard relies on the revenue from grocery taxes to help fund essential services such as police and fire departments, public works, and infrastructure projects.

7. What would happen if the Village of Lombard chose not to implement a grocery tax?

If the Village does not implement a grocery tax, it will lose approximately \$1 million - \$1.3 million in annual revenue, potentially leading to budget cuts and reduced services.

8. How will the municipal grocery tax be collected?

The Illinois Department of Revenue (IDOR) will administer and collect the municipal

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grocery sales tax on behalf of municipalities that enact it, ensuring a streamlined process for retailers.

9. How do municipalities enact a local grocery tax?

To implement a grocery tax, municipalities must pass an ordinance and submit it to the state by October 1, 2025, to ensure it takes effect on January 1, 2026.

ORDINANCE NO. ____

AN ORDINANCE IMPLEMENTING A MUNICIPAL GROCERY RETAILERS' OCCUPATION TAX AND A MUNICIPAL GROCERY SERVICE OCCUPATION TAX FOR THE VILLAGE OF LOMBARD, DUPAGE COUNTY, ILLINOIS

WHEREAS, the Illinois Municipal Code, 65 ILCS 5/1-2-1, provides that the corporate authorities of each municipality may pass all ordinances and make all rules and regulations proper or necessary, to carry into effect the powers granted to municipalities, with such fines or penalties as may be deemed proper; and

WHEREAS, the Village of Lombard ("Village") is a non-home rule Illinois municipality pursuant to the Constitution of the State of Illinois of 1970, as amended; and

WHEREAS, Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24) provides that, beginning on January 1, 2026, all Illinois municipalities may impose a tax "upon all persons engaged in the business of selling groceries at retail in the municipality" (the "Municipal Grocery Tax") (65 ILCS 5/8-11-24); and

WHEREAS, the Municipal Grocery Retailers' Occupation Tax may be imposed "at the rate of 1% of the gross receipts from these sales" (65 ILCS 5/8-11-24); and

WHEREAS, any Municipal Grocery Retailers' Occupation Tax shall be administered, collected and enforced by the Illinois Department of Revenue; and

WHEREAS, Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24) requires any municipality imposing a Municipal Grocery Retailers' Occupation Tax under Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24) to also impose a Service Occupation Tax at the same rate, "upon all persons engaged, in the municipality, in the business of making sales of service, who, as an incident to making those sales of service, transfer groceries" as "an incident to a sale of service" (the "Municipal Grocery Service Occupation Tax") (65 ILCS 5/8-11-24); and

WHEREAS, any Municipal Grocery Service Occupation Tax shall be administered, collected and enforced by the Illinois Department of Revenue; and

WHEREAS, the President and Board of Trustees of the Village of Lombard believe that it is appropriate, necessary and in the best interests of the Village and its residents, that the Village levy a Municipal Grocery Retailers' Occupation Tax as permitted by Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24);

NOW, THEREFORE, be it ordained, by the President and Board of Trustees of the of the Village of Lombard, DuPage County, Illinois, as follows:

Section 1. Incorporation of Recitals. The foregoing recitals shall be and are hereby incorporated as findings of fact as if said recitals were fully set forth herein.

Section 2. Municipal Grocery Retailers' Occupation Tax Imposed. A tax is hereby imposed upon all persons engaged in the business of selling groceries at retail in this municipality at the rate of 1% of the gross receipts from such sales made in the course of such business while this Ordinance is in effect. The imposition of this tax is in accordance with and subject to the provisions of Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24).

Section 3. Municipal Grocery Service Occupation Tax. A tax is hereby imposed upon all persons engaged in this municipality in the business of making sales of service, who, as an incident to making those sales of service, transfer groceries as an incident to a sale of service. The rate of this tax shall be the same rate identified in Section 2, above. The imposition of this tax is in accordance with and subject to the provisions of Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24).

Section 4. Illinois Department of Revenue to Administer Both Taxes. The taxes hereby imposed, and all civil penalties that may be assessed as an incident thereto, shall be collected and enforced by the Department of Revenue of the State of Illinois. The Illinois Department of Revenue shall have full power to administer and enforce the provisions of this Ordinance.

Section 5. Clerk to file Ordinance with Illinois Department of Revenue. As required under Section 8-11-24 of the Illinois Municipal Code (65 ILCS 5/8-11-24), the Clerk is hereby directed to file a certified copy of this Ordinance with the Illinois Department of Revenue on or before October 1, 2025.

Section 6. Effective Date. The taxes imposed by this Ordinance shall take effect on January 1, 2026, which is the first day of January next following the adoption and filing of this Ordinance with the Department of Revenue, as provided by law.

Section 7. Repeal of Conflicting Provisions. All ordinances, resolutions and policies or parts thereof, in conflict with the provisions of this Ordinance are, to the extent of the conflict, expressly repealed on the effective date of this Ordinance.

Section 8. Severability. If any provision of this Ordinance or application thereof to any person or circumstances is ruled unconstitutional or otherwise invalid, such invalidity shall not affect other provisions or applications of this Ordinance that can be given effect without the invalid application or provision, and each invalid provision or invalid application of this Ordinance is severable.

Section 9. Headings/Captions. The headings/captions identifying the various sections and subsections of this Ordinance are for reference only and do not define, modify, expand or limit any of the terms or provisions of the Ordinance.

Section 10. Publication. The Clerk is directed by the corporate authorities to publish this Ordinance in pamphlet form. This Ordinance shall be in full force and effect after its passage and publication in accordance with 65 ILCS 5/1-2-4.

ADOPTED this ____ day of _____, 2025, pursuant to a roll call vote as follows:

AYES:

NAYS:

ABSENT:

APPROVED by me this ____ day of _____, 2025.

Keith Giagnorio, Village President

ATTEST:

Elizabeth Brezinski, Village Clerk

Published by me in pamphlet form this ____ day of _____, 2025.

Elizabeth Brezinski, Village Clerk