

ORDINANCE NO. 16870

**AN ORDINANCE AMENDING THE CITY OF JOLIET
HOME RULE MUNICIPAL RETAILERS' OCCUPATION TAX
AND MUNICIPAL SERVICE OCCUPATION TAX**

WHEREAS, Section 8-11-1 of the Illinois Municipal Code (65 ILCS 5/8-11-1), as amended, authorizes the City of Joliet to tax persons engaged in the business of selling tangible personal property, other than an item of tangible personal property registered with the State of Illinois, at retail within the corporate limits of the City of Joliet; and

WHEREAS, Section 8-11-5 of the Illinois Municipal Code (65 ILCS 5/8-11-5), as amended, authorizes the City of Joliet to tax persons engaged within the corporate limits of the City in the business of making sales of service at the same rate of tax imposed pursuant to said Section 8-11-1, of the selling price of all tangible personal property transferred by such servicemen either in the form of tangible personal property or in the form of real estate as an incident to a sale of a service; and

WHEREAS, the City of Joliet currently imposes the aforesaid taxes at the rate of one and one quarter per cent (1 $\frac{1}{4}$ %); and

WHEREAS, the Mayor and City Council have determined that the fiscal needs of the City require an increase in the rate of said taxes to one and three-quarters per cent (1 $\frac{3}{4}$ %) as hereinafter set forth; and

WHEREAS, the City of Joliet is a home rule unit of local government.

NOW, THEREFORE, BE IT ORDAINED BY THE MAYOR AND CITY COUNCIL OF THE CITY OF JOLIET, ILLINOIS, AS FOLLOWS:

SECTION 1: Section 28-150(a) of the Code of Ordinances of the City of Joliet is hereby amended in its entirety to read as follows:

(a) A tax is hereby imposed upon all persons engaged in the business of selling tangible personal property, other than an item of tangible personal property titled or registered with an agency of the State of Illinois, at retail in the City of Joliet at the rate of one and three-quarters per cent (1 $\frac{3}{4}$ %) of the gross receipts from such sales made in the course of such business.

SECTION 2: Section 28-150(b) of the Code of Ordinances of the City of Joliet is hereby amended in its entirety to read as follows:

(b) A tax is hereby imposed upon all persons engaged in the City of Joliet in the business of making sales of service at the rate of one and three-quarters per cent (1 $\frac{3}{4}$ %) of the selling price of all tangible personal property transferred by such servicemen

either in the form of tangible personal property or in the form of real estate as an incident to the sale of service.

SECTION 3: The City Manager is hereby authorized and directed to file a certified copy of this ordinance with the State of Illinois, Department of Revenue prior to October 1, 2011. The City Manager is also authorized to take such action as may be reasonably necessary to effectuate the prompt collection and enforcement of the taxes imposed herein by the State of Illinois.

SECTION 4: Any ordinance in conflict with this ordinance is hereby repealed to the extent of such conflict.

SECTION 5: This ordinance is deemed severable and the invalidity of any portion hereof shall not be deemed so as to invalidate the remainder.

SECTION 6: This ordinance is adopted pursuant to the statutory and home rule powers of the City of Joliet.

SECTION 7: This ordinance shall be in effect upon its passage.

PASSED this 20th day of September, 2011.


MAYOR


CITY CLERK

VOTING YES: MAYOR GIARRANTE, COUNCILWOMAN BARBER, COUNCILMEN FISHER, GERL and COUNCILMAN TURK.

VOTING NO: COUNCILMEN HUG, MORRIS, O'DEKIRK and COUNCILWOMAN QUILLMAN.

NOT VOTING: NONE.

**OFFICE OF THE CITY MANAGER
THOMAS A. THANAS
CITY MANAGER
PHONE: 815/724-3720
FAX: 815/724-3737**

tthanas@jolietcity.org



September 15, 2011

TO: Mayor and City Council

FROM: Thomas A. Thanas, City Manager

SUBJECT: 1. Revenue Increases Proposed for the 2012 Budget

2. Municipal Electric Aggregation to Reduce Electric Bills of Joliet Residents

BACKGROUND:

Since 2008, the City of Joliet has experienced significant decreases in revenues primarily due to deteriorating economic conditions. On the expense side of the ledger, increases in salaries, health care, pension, and other expenses have risen. Since the beginning of 2009, the City has reduced its workforce by over 15%, deferred many capital expenditures, eliminated or reduced subsidies to community organizations, frozen management salaries, and negotiated variances to collective bargaining agreements with four of the City's six employee bargaining units. These adjustments have helped reduce the projected deficit for 2012 by \$50 million. Nevertheless, the City Administration is currently projecting an operating deficit of \$17 million for the 2012 budget.

In order to address the projected \$17 million operating deficit, the City Administration prepared two stabilization options. Option 1 consisted entirely of \$17 million in reductions in expenditures. It significantly reduced or eliminated subsidies to various organizations, eliminated several long term City programs, and included many layoffs. Option 2 restored portions of the subsidies and some City programs and limited layoffs, while introducing some new tax revenues. After those options were presented to and discussed by the City Council, Mayor Tom Giarrante developed a compromise version of adjustments to the projected 2012 budget. The Mayor's proposal, known as "Option 3," reduces payments to outside organizations, calls for operational reductions, increases certain taxes, and requires adjustments to collective bargaining agreements without layoffs.

Each of the options includes some common elements of reducing subsidies and calling for operational reductions. Options 2 and 3 include some tax increases. The common element of each option is they include adjustments that equal the projected \$17 million operating deficit. During each of the budget related discussions over the past two months, there appears to be a general consensus that actions to address the projected deficits must begin immediately. Given the sense of urgency, certain elements of the various options need to begin to be addressed in the near future. Preliminary negotiations with the City's six collective bargaining units have already started. The City Manager has started the process of making the \$1 million or more in adjustments that need to be made at an administrative level. In order for the full benefit of the projected tax increases to be available by January 1, 2012, formal approval of the proposed tax increases by ordinance needs to be obtained as soon as possible.

While the 2012 budget is being prepared by the City Administration, it is necessary to move forward with a decision on the proposed tax increases essential to make Option 3 close the budget deficit. This Council Memo outlines the tax increases that are before the City Council for immediate consideration. If the ordinances are approved, the tax increases will be programmed into the 2012 budget. If they are not, other new revenues or reductions in expenses will be required.

The following tax increases are presented to the City Council consistent with the new revenue sources included in Option 3:

Increase Ambulance Billing Rates

<u>Type of Service</u>	<u>Current Rates</u>	<u>Proposed Rates</u>
Basic Life Support (BLS)	Resident - \$400 Non-Resident - \$700	Flat \$1,000
Advanced Life Support I (ALS I)	Resident - \$400 Non-Resident - \$700	Flat \$1,100
Advanced Life Support II (ALS II)	Resident - \$400 Non-Resident - \$700	Flat \$1,200
Fee for Treatment without Transport	Resident - \$100 Non-Resident - \$300	Flat \$300
Mileage	\$6.86/Mile	\$15.00/Mile

The City Administration has reviewed the City's current rates with the City's billing consultant, Andres Medical Billing. During this review, it was determined that the City's current rates do not maximize allowable revenues from the main payment sources: Medicaid, Medicare, and private insurance. A fourth source of payments is from private pay persons who are usually uninsured or have policies that exclude medical transportation, which represents less than 3% of current revenues.

Several factors were taken into consideration when recommending a new rate schedule including: current reimbursement rates, the cost of service, the rates in comparable communities, and the impact on Joliet residents. In exchange for establishing a flat fee schedule, the proposed ordinance includes a provision to write-off the private pay portion for services provided to Joliet residents. After a resident's Medicare, Medicaid and private insurance payments have been received, the City will waive the outstanding portion owed by the resident. This write-off portion represents approximately 1.5% of all revenues and will be offset by the increase in revenues due to the new rate schedule. The rates proposed above are expected to generate approximately \$340,000 additional dollars on an annual basis. Assuming approval of the corresponding attached ordinance at the City Council's September 20th meeting, the effective date of this increase will be October 1, 2011. Due to billing lags, the 2011 budget will see a minimal increase in revenues.

Increase Municipal “Utility Tax” Rates

<u>Municipal Tax</u>	<u>Current Rates</u>	<u>Proposed Rates</u>
Electric	Sliding Scale from: 0.232 cents/kilowatt hr. to 0.025 cents/kilowatt hr.	Sliding Scale from: 0.3480 cents/kilowatt hr. to 0.03750 cents/kilowatt hr.
Telecommunications	5% of gross charges	6% of gross charges
Natural Gas – NICOR Accounts	2% of gross charges	3% of gross charges
Natural Gas – Third Party Providers	No Tax	\$.02/therm on Gas Supplied

Electric Municipal Tax

The City currently taxes the sale of electricity on a sliding scale from 0.232 cents/kilowatt hour for the first 2,000 kilowatt hours used or consumed during the month with this rate decreasing as additional units are used or consumed until a rate of 0.025 cents/kilowatt hour is reached. These rates represent 40% of the amount allowable per State of Illinois Statutes. The proposal increases the City’s rates to 60% of the amount allowable per Statutes. If the corresponding attached ordinances are approved by the City Council at its September 20th meeting, it is expected that the new taxes will be implemented with the November or December 2011 electric bills. The impact of this increase for a residential bill with an after tax bill of \$163.22, which includes a current municipal tax of \$3.08 would increase to \$164.76 or \$1.54.

Telecommunications Tax

The City currently taxes telecommunication services at a rate of 5% of gross charges. The proposal is to raise the rate to 6%. For a billed amount of \$100 prior to taxes, this would increase the bill by one dollar, \$1.00. The increase is expected to generate approximately \$800,000 on an annual basis.

Natural Gas Taxes

Prior to deregulation, customers purchased natural gas from a sole provider. In Joliet, the provider was NICOR (or NiGas in the old days). Since deregulation, customers continue to have natural gas delivered to their homes and businesses by NICOR. However, gas customers now have the option of purchasing their natural gas (commodity portion) from either NICOR or a third party provider of their choice.

The City currently imposes a tax of 2.00% on the gross charges related to the purchase and delivery of natural gas. However, when deregulation was approved by the State, purchases of natural gas from a third party provider were not automatically subject to the existing tax. The tax was still imposed on NICOR customers, but for non-NICOR customers, the commodity portion purchased from the third party provider was excluded from the municipal tax. Over time the number of customers purchasing natural gas from third parties has grown substantially. To capture this missing portion, it is necessary for the City to pass a separate ordinance and approve an agreement with NICOR to collect tax on the commodity portion purchased from the third parties. Illinois law allows for a tax to be imposed on a per therm basis of natural gas sold.

The proposals in relation to natural gas are two-fold. For NICOR customers, the proposal is to increase the tax from 2% to 3%, or \$1.00 for each \$100 of the billed amount prior to taxes. For non-

NICOR customers, they would increase from 2% to 3% the distribution portion of their bill. In addition, they would now pay a \$.02/therm tax on the commodity portion of the bill. This would help restore equity between the two types of customers. The increases for NICOR and non-NICOR customers are anticipated to generate approximately \$400,000 and \$650,000 on an annual basis. The increase in tax will be coordinated with NICOR the collection agent. If the corresponding attached ordinances are approved by the City Council at its September 20th meeting, it is expected that the new taxes will be implemented with the November or December 2011 gas bills.

Increase Home Rule Sales Tax

The City currently has a home rule sales tax in place at a rate of 1.25%. This tax covers the sale of most goods purchased in the City with some exceptions. For example the following are exceptions per State law: prescription drugs, prepared food, certain types of medical devices such as, corrective eyewear, insulin syringes, and dentures, registered vehicles, and mobile homes.

The proposal is to raise the tax rate from the current rate of 1.25% to 1.75%. This rate increase would generate approximately \$5,800,000 in new revenues on an annual basis. Since there is a lag time between implementation and receipt by the City, the impact on the 2012 budget is expected to be approximately \$3,800,000. For the purchaser of a \$300 gas grill, the impact would be an additional \$1.50 in new taxes.

Part 2 of the Council Memo – Electric Bill Savings

“Municipal Aggregation” of Electricity

In 2001, the State of Illinois deregulated the sales of electric energy. Previously, ComEd was the sole provider and distributor of electricity to Joliet residents. After deregulation, the distribution portion of the transaction was left for ComEd to administer. However, customers now have a choice to purchase their electricity from a third party provider. The City has already taken advantage of the deregulation by purchasing electricity from third party vendors, realizing significant savings for our water and sewer utility system. Many large businesses followed and have received favorable rates from third party vendors. One segment that has not taken advantage of this deregulation as a whole is the residential and small business customer. These groups are generally still purchasing electricity from ComEd.

To assist residents and small businesses, a recent change in Illinois law allows municipalities to “aggregate” or combine the electric accounts of residents for the purpose of negotiating lower rates than those provided by ComEd. The basic premise is that a municipality or group of municipalities has larger buying power than individuals and small businesses and can use that power to best negotiate a favorable price on behalf of its residents. The legislation requires a municipality to hold a referendum and gain voter approval before any negotiating can take place. If the referendum is successful, the municipality or group of municipalities can then negotiate with various electricity providers or brokers to obtain the best rate on behalf of its residents. If the negotiated rate is lower than the ComEd rate, the City would then recommend that the lower rate be implemented. At this point, residents or small businesses would be enrolled with the lower rate. If a resident or small business did not want to participate in the cooperative purchasing group, the resident would be offered an opportunity to “opt out” for any reason without penalty.

Recently, two nearby communities, Crest Hill and New Lenox, went through this process. As a result of their action, the residents and small businesses of their community will experience savings of

approximately 25% on the energy portion of their bill. The electric bill will still come from ComEd, but it will name the alternative supplier of the electricity at that lower rate.

The City Administration has begun work on moving towards such a program on behalf of Joliet residents and small businesses. Towards this end, the City is currently working with the Will County Governmental League and at least a dozen other Will County municipalities to aggregate the accounts of Joliet residents with those of other participating Will County municipalities. The passage of the electric aggregation referendum and the subsequent negotiation of a contract with a third party electricity provider by the City through the Will County Governmental League should result in lower rates for all of the communities involved. The savings achieved through the municipal aggregation process will most likely offset the combined increases Joliet residents will see in their electric bills, natural gas bills, and (assuming standard phone packages) telecommunication bills. In fact, it is likely that Joliet residents will see a NET DECREASE in their utility bills with the savings through municipal aggregation being greater than the actual impact of the utility tax increases proposed under Option 3.

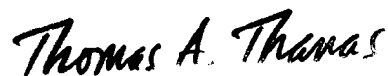
Information provided by the Will County Governmental League on electric aggregation is attached to this Council Memo. As the electric aggregation process moves forward, the Administration will work with the Finance Committee to provide additional information and then request City Council approval of the ordinance placing the referendum on the March 20, 2012, primary election ballot as required by Illinois law.

RECOMMENDATION:

The Administration respectfully recommends the following ordinances be approved:

1. An Ordinance Amending Fees for Ambulance Service
2. An Ordinance Amending the City of Joliet Utility Tax on Electricity
3. An Ordinance Amending the City of Joliet Municipal Telecommunications Tax
4. An Ordinance Amending the City of Joliet Utility Tax on Natural Gas
5. An Ordinance Establishing a Home Rule Municipal Use Tax on the Retail Purchase of Natural Gas
6. An Ordinance Amending The City of Joliet Home Rule Municipal Retailers' Occupation Tax And Municipal Service Occupation Tax

Respectfully submitted,



Thomas A. Thanas
City Manager

CONCURRENCES:



Rachel L. Mayer
Finance Director



Kenneth R. Mihelich
Director of Management and Budget