



**CITY OF URBANA, ILLINOIS
FINANCE DEPARTMENT**

M E M O R A N D U M

TO: Mayor Diane Wolfe Marlin and City Council Members

FROM: Kris Francisco, Financial Services Manager
Elizabeth Hannan, Finance Director

DATE: November 7, 2019

SUBJECT: Ordinance Increasing Food and Beverage Tax

Introduction: Attached is an Ordinance increasing the food and beverage tax from 1.5% to 2%. This increase is part of a package of changes designed to close the budget gap for FY2021.

Discussion:

Balancing the City's Budget: In preparation for development of the annual budget, staff reviewed the City's financial situation and potential strategies for filling the budget gap for FY2021. The strategy recommended by the Mayor is to use a combination of revenue increases to balance the budget. This should allow the City to produce a balanced budget, without further reductions in services and staffing. The last financial forecast predicted a gap of \$875,000 for FY2021.

Food and Beverage Tax: The food and beverage tax applies to all sales of food and beverages for immediate consumption, which generally includes all meals and beverages, served in or carried out from restaurants.

An increase to the food and beverage tax would not affect the cost of essential goods and services for our residents. In addition, the tax is borne by both residents and non-residents who purchase food and beverages in the City of Urbana. Furthermore, the cost to the City of Urbana to implement the increase to the food and beverage tax would be minimal compared to implementing a new tax. Staff would be required to make changes to the existing forms and notify existing business of the new rate and effective date. However, a collection process is already in place.

Increasing the food and beverage tax from 1.5% to 2% is expected to generate \$400,000 annually in the General Operating Fund. The total food and beverage tax will be 2%, applied in addition to sales tax, for a total tax of 11% of food and beverages purchased for immediate consumption. This would amount to an additional 12-cents on a \$25.00 purchase.

The City Council last approved an increase to the food and beverage tax from 0.5% to 1.5% in 2017. Below is a table of comparable cities food and beverage tax rates.

City	F&B Tax Rate	Total Tax on F&B
Bloomington	2.00%	10.75%
Champaign - Current	0.50%	9.50%
Champaign – Effective 1/1/2020	2.50%	11.50%
Danville	1.00%	9.50%
Decatur	2.00%	11.25%
Moline	1.50%	10.00%
Normal	2.00%	10.75%
Peoria	2.00%	10.50%
Peoria - Hospitality District	2.00%	11.50%
Rantoul	0.00%	9.00%
Springfield	0.00%	8.75%
Urbana	1.50%	10.50%
Urbana – Proposed	2.00%	11.00%

Public Input: Staff prepared and mailed a letter to all business currently remitting food and beverage tax to the City. Businesses were invited to either attend the committee meeting to provide comment, or provide written comments to staff by November 8, 2019, which will be provided to Council Members at the start of the meeting.

Fiscal Impact: The increase in the food and beverage tax is one part in a three-part approach to fill the gap in the budget for FY2021. The effect of this change is an expected increase of \$400,000 in revenue the General Operating Fund, which provides basic City services, such as police and fire protection. The other parts of the three-part approach include clarifying that Airbnb and similar “facilitators” are subject to the Hotel/Motel tax, and implementing a 3% cannabis tax, which was approved by the City Council in September.

Alternatives:

1. Forward the Ordinance increasing the food and beverage tax from 1.5% to 2% effective February 1, 2020, to City Council for approval on November 18, 2019.
2. Amend the Ordinance, or choose not to forward the Ordinance to Council. If revenues are not increased, further budget reductions or alternate revenue increases will be required to balance the budget for FY2021.

Recommendation: Forward the Ordinance increasing the food and beverage tax from 1.5% to 2% effective February 1, 2020 to City Council for approval on November 18, 2019.

ORDINANCE NO. 2019-11-063

AN ORDINANCE AMENDING URBANA CITY CODE
CHAPTER TWENTY-TWO, ARTICLE VII, SECTION 22-91(a)

(Amendment to Food & Beverage Tax Ordinance)

WHEREAS, the City of Urbana (“City”) is a home rule unit of local government pursuant to Article VII, Section 6, of the Illinois Constitution, 1970, and may exercise any power and perform any function pertaining to its government and affairs not otherwise expressly reserved to the State of Illinois by legislation, including imposing a privilege tax on the purchase of prepared foods and beverages for immediate consumption; and

WHEREAS, the City has adopted an ordinance which provides for a privilege tax for the privilege of purchasing prepared food for immediate consumption on the premises or off the premises (UCC Sec. 22-90); and

WHEREAS, the City Council deems it necessary and appropriate to increase the privilege tax for the privilege of purchasing prepared food for immediate consumption on the premises or off the premises where sold and alcoholic liquor for consumption on the premises where sold from one and one-half (1½) percent to two (2) percent; and

WHEREAS, the City Council deems it necessary and appropriate to amend UCC Sec. 22-91(a) to clarify how the food and beverage tax applies to alcoholic liquor sold for consumption on the premises, whether in unopened or opened original package form, and alcoholic liquor sold in sealed original package form for consumption off the premises where sold.

NOW, THEREFORE, BE IT ORDAINED by the City Council of the City of Urbana, Champaign County, Illinois, as follows:

Section 1.

Urbana City Code Chapter 22, “Taxation”, Article VII, “Privilege Tax on Purchase of Prepared Food for Immediate Consumption and Certain Alcoholic Liquor”, Section 22-91, “Tax” shall be and hereby is amended as follows with strike-through words representing language to be deleted and underlined words representing language to be added:

Sec. 22-91. – Tax

(a) A tax, in addition to all other taxes, is hereby levied and imposed upon the privilege of purchasing -

(1) prepared food items for immediate consumption, whether on the premises or off the premises where sold at the rate of ~~one~~ and one-half (1½) two (2) percent of the purchase price,

exclusive of any other tax, charged for such food.

(2) alcoholic liquor for consumption on the premises where sold at the rate of ~~one and one-half (1½) - two (2)~~ percent of the purchase price, exclusive of any other tax charged for such alcoholic liquor.

(3) alcoholic liquor in sealed original package form for consumption off the premises were sold at the rate of three (3) percent of the purchase price, exclusive of any other tax charged for such alcoholic liquor.

Section 2.

This Ordinance shall become effective on February 1, 2020.

Section 3.

Those sections, paragraphs, and provisions of the Urbana City Code that are not expressly amended or repealed by this Ordinance are hereby re-enacted, and it is expressly declared to be the intention of this Ordinance not to repeal or amend any portions of the Urbana City Code other than those expressly set forth as amended or repealed in this Ordinance. The invalidity of any section or provision of this Ordinance hereby passed and approved shall not invalidate other sections or provisions thereof.

Section 4.

This Ordinance shall not be construed to affect any suit or proceeding pending in any court, or any rights acquired, or a liability incurred, or any cause or causes of action acquired or existing prior to the effective date of this Ordinance; nor shall any right or remedy of any character be lost, impaired, or affected by this Ordinance.

Section 5.

The City Clerk is directed to publish this Ordinance in pamphlet form by authority of the corporate authorities, and this Ordinance shall be in full force and effect from and after its passage and publication in accordance with Section 1-2-4 of the Illinois Municipal Code.

This Ordinance is hereby passed by the affirmative vote, the “ayes” and “nays” being called, of a majority of the members of the Council of the City of Urbana, Illinois, at a meeting of said Council.

PASSED BY THE CITY COUNCIL this ____ day of _____, _____.

AYES:

NAYS:

ABSENT:

ABSTAINED:

Charles A. Smyth, City Clerk.

APPROVED BY THE MAYOR this ____ day of _____, _____.

Diane Wolfe Marlin, Mayor