



## Legislation Text

File #: 17-346, Version: 1

### ACTION REQUESTED:

Communication from the City Manager with a Request to ADOPT the Following:

- A. An ORDINANCE Establishing the STERLING AVENUE/ROCKWOOD ROAD SPECIAL SERVICE AREA in the City of Peoria, Illinois; and,
- B. An ORDINANCE LEVYING A SALES TAX for the Sterling Avenue/Rockwood Road Special Service Area. (Fourth District)

**BACKGROUND:** On September 12, 2017, the City Council began the process of considering the creation of a Special Service Area (SSA) for property at the intersection of Sterling and Lake that would become the site of a Portillo's restaurant. That night, the Council adopted an ordinance that set a public hearing for November 14, 2017. The ordinance also outlined the structure of the potential agreement. Willie Torcia and WCT Properties, the petitioner, was requesting the levying of an additional 1% sale tax for 30 years. The proceeds would be used to rebate Mr. Torcia for \$1.3 million in costs associated with the development.

Over the past two months, the City has worked with Mr. Torcia to reach a compromise that leads to the successful establishment of a Portillo's restaurant at this location. The attached ordinances (1) establish the SSA and (2) levy the additional sales tax starting January 1, 2018. The ordinances reference the SSA Agreement, which spells out the structure of the incentive:

1. The SSA will levy an additional sales tax of 1% on this property only.
2. The SSA will end on the earlier of its 15 year anniversary (December 31, 2032) or when a total of \$650,000 has been rebated.
3. The SSA will end should Mr. Torcia sell the property.
4. The SSA only gets established if the Portillo's gets built.
5. The City shall retain 2% of any revenue collected to serve as a management fee.

Portillo's is a high-volume restaurant that is predicted to do between \$6 million and \$8 million in sales per year. At the conservative end of that range, the SSA sales tax would generate \$60,000. When the 2% management fee of \$1,200 is deducted, \$58,800 would be rebated to the developer. At that rate, the \$650,000 cap would be reached and the SSA would end in just over 11 years. Better sales would mean a faster end.

**FINANCIAL IMPACT:** The revenue generated and rebated to the developer is above any taxes collected by the City. While the incentive agreement does not cost the City any money, it may generate revenue for the City. First, the agreement provides that the City receives a management fee of 2% of revenue generated. At \$6 million in sales and \$60,000 in SSA tax, that management fee would yield \$1,200 per year.

More impactful is the potential sales and restaurant tax. The base sales tax rate (before SSA) is 9%. The City portion of the sales tax 2.75%. The County receives 0.75% and County school districts receive 0.50%. In addition to sales taxes, the City also collects a 2% restaurant tax. The chart below shows the local impact of \$6 million in annual sales at Portillo's:

Tax Rate	Full Amount	30% New
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<b>Total Sales Tax</b>	9.00%	\$540,000	\$162,000
- City Portion	2.75%	\$165,000	\$49,500
- County Portion	0.75%	\$45,000	\$13,500
- School Portion	0.50%	\$30,000	\$9,000
<b>Restaurant Tax</b>	2.00%	\$120,000	\$36,000
<b>Revenue to City</b>		<b>\$285,000</b>	<b>\$85,500</b>

Since there is likely to be shift within the City, not all revenue generated can be considered new revenue. The column on the right shows the impact if 30% of the sales come from outside the City. In this analysis, the City received \$85,500 more in tax revenue.

Some additional financial considerations are property taxes, building permit fees and the impact of jobs. The parcels that comprise the project site have a current 2017 Equalized Assessed Value (EAV) of \$404,180. On that EAV, based on a 2017 tax rate of 9.56859, property taxes would be \$38,674.33. While an exact valuation of a future development is difficult to project, if the EAV was \$1 million (\$3 million fair market value based on cost of land plus improvements) the taxes paid at 2017 rates would be \$95,685.90. The increase would be \$57,011.57. Based on the building permit application, Portillo's will pay \$14,400 in building permit fees. Finally, the restaurant will employ a large workforce. According to media outlets in Bloomington-Normal, the Portillo's there will employ between 150 and 200 people with a mixture of part-time and full-time workers. The Normal and Peoria stores are very similar operations and Peoria can expect a similar size workforce.

While there will be a January policy session on the use of Special Service Areas, both in terms of the use of property tax and sales tax levy, this arrangement may serve as a good model for future sales tax SSAs. The project generates a significant number of jobs, adds a considerable amount of new public revenue, and increases property value.

**NEIGHBORHOOD CONCERNS:** A public hearing is scheduled for earlier on this Council agenda. The entire development has been well covered by the media and residents have expressed both support and opposition to the additional taxation.

**IMPACT IF APPROVED:** The SSA will be approved, the additional tax will be levied, and the project will proceed.

**IMPACT IF DENIED:** The SSA will not be approved. According to Mr. Torcia, without the SSA in place he will not proceed with the Portillo's project.

**ALTERNATIVES:** Council could craft different parameters for the incentive.

**EEO CERTIFICATION NUMBER:** Not applicable.

**WHICH OF THE GOALS IDENTIFIED IN THE COUNCIL'S 2014 - 2029 STRATEGIC PLAN DOES THIS RECOMMENDATION ADVANCE?**

1. Grow Peoria: Businesses, Jobs, and Population

**WHICH CRITICAL SUCCESS FACTOR(S) FROM THE COMPREHENSIVE PLAN DOES THIS RECOMMENDATION IMPLEMENT?**

1. Grow employers and jobs.

**DEPARTMENT:** City Manager's Office