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Municipalities mixed on use of sales tax rebates to spur development

Communities throughout the region and the state share sales tax revenues to woo retailers – and they are within their rights to do so under Illinois law.

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(MCT) — As many communities continue to agonize over gaping retail vacancies, north suburban Vernon Hills has reeled in an impressive roster of replacements in the past couple of years.

The village landed Steinhafels Furniture; H.H. Gregg, a purveyor of appliances and electronics; Mariano's Fresh Market; Gordmans, a clothing and fragrance store; Dick's Sporting Goods; and TigerDirect, a computer outlet.

But to land these deals and bring its retail vacancy rate back in line, village officials swallowed a bitter pill. They agreed to provide sales tax rebates to the incoming ventures, a step largely avoided in more prosperous times.

"Personally, I want to lose that term from our vocabulary in the future," said Mayor Roger Byrne, whose village gets half its revenue from sales taxes and prides itself on not needing to levy property taxes.

Communities throughout the region and the state share sales tax revenues to woo retailers -- and they are within their rights to do so under Illinois law. In fact, rebate researcher Geoffrey Propheter found the rebate programs to be more heavily used in Illinois than elsewhere around the country.

For the most part, these programs have flown under the radar until this summer, when the Regional Transportation Authority, the city of Chicago and Cook County legally challenged a variation on their use. In lawsuits, they alleged Channahon and Kankakee used sales tax rebate agreements to divert sales tax collections unfairly from metro Chicago to small "sham offices" in their lower-tax towns -- allegations denied by both communities.

With a spotlight now directed at sales-tax rebate programs, some observers are quick to say they stand behind the more common use of rebate programs to attract big-box stores and auto dealers.

"We have no concerns about sales tax rebate programs being used if there is real economic development potential, such as jobs being created or construction taking place to build a new business," said Jordan Matyas, deputy executive director at the RTA.

But other observers say the programs can skew economic development efforts toward retail. This can be effective in filling city coffers but may not produce as much regional economic growth as office or manufacturing developments, which tend to have higher-paying jobs and an ability to sell products over a much wider geographic range.