PART

Plan of Action for Regional Transit

Northeastern Illinois

Memorandum

To: Erin Aleman

From: CMAP staff

Date: August 1, 2023

Subject: Overview of key sales tax recommendations

Executive summary

The sales tax is currently the primary source of public funding for transit in the RTA region. CMAP engaged SB Friedman Development Advisors (SB Friedman) to prepare an analysis of the state and regional sales tax with forecasts of potential sales tax proceeds under several options:

- Option 1. Expand the sales tax base in Illinois to include services and apply existing rates and formulas.
- Option 2. Expand the sales tax base in Illinois to include services but reduce the state rate on goods.
- Option 3. Expand the sales tax base in Illinois to include services but reduce the state rate on goods while also raising the RTA sales tax rate.
- Option 4. Raise the RTA sales tax rate in the region alone.

CMAP recommends that the Illinois General Assembly (ILGA) ensure the sustainability of this funding source by modernizing its base to include additional services. Doing so will make it more resilient to economic downturns and better aligned with peer states.

NOTE: This overview provides additional context for the attached slide deck from SB Friedman, which previews sales tax options and revenue forecasts. A high-level overview of anticipated revenues for Options 1-4 is included below in Table 1; additional detail can be found in SB Friedman's materials. The list of proposed services is included in Appendix B. A final memo from SB Friedman, expected in late August 2023, will further explain the background rationale and outline each option in greater depth.

Table 1. Summary of new revenues anticipated to result from sales tax changes under different scenarios (in millions, 2026)

Option 1. Expand the base to cover services; keep rates the same					
Services scenarios	**RTA[1]**	**Collar Counties[2]**	**Regional municipalities**	**State of Illinois**	**Counties & municipalities outside region**
Expansive services option	$315	$26	$293	$1,900	$110
Top performers option	$224	$14	$202	$1,200	$46
Equity option	$212	$15	$193	$1,100	$31

Option 2. Expand the base to cover services; lower the state rate by 0.5-0.75%					
Services scenarios	**RTA[1]**	**Collar Counties[2]**	**Regional municipalities**	**State of Illinois**	**Counties & municipalities outside region**
Expansive services option	$317	$26	$293	$1,600	$111
Top performers option	$225	$14	$203	$1,100	$46
Equity option	$213	$15	$194	$1,000	$31

Option 3. Expand the base to cover services; lower the state rate by 0.5-0.75%; raise the RTA rate by 0.25%					
Services scenarios plus 0.25% RTA rate increase	**RTA[1]**	**Collar Counties[2]**	**Regional municipalities**	**State of Illinois**	**Counties & municipalities outside region**
Expansive services option	$861	$26	$294	$1,600	$111
Top performers option	$746	$14	$202	$1,100	$46
Equity option	$733	$15	$194	$1,000	$31

Option 4. Raise the RTA rate by 0.25% alone					
	RTA[1]	**Collar Counties[2]**	**Regional municipalities**	**State of Illinois**	**Counties & municipalities outside region**
Services scenarios	NA				
Rate increase	$470	-	-	-	-

Notes: 2026 figures assume 75% compliance with the sales tax on services, anticipated to reach 90% at full implementation by 2027. Forecasts and assumptions are described in greater detail in the attached slide deck.

The service scenarios identified above refer to three possible permutations of services to tax analyzed by SB Friedman. The "expansive services" option includes the broadest number of services, which were identified based on services taxed in adjacent states, while the "top performers" and "equity" options examine narrower bases that have different policy implications. The "top performers" option covers the three service categories anticipated to generate the most revenue. The "equity" option selects services more likely to be used by higher income households. See attachment for more information.

Source: CMAP, SB Friedman

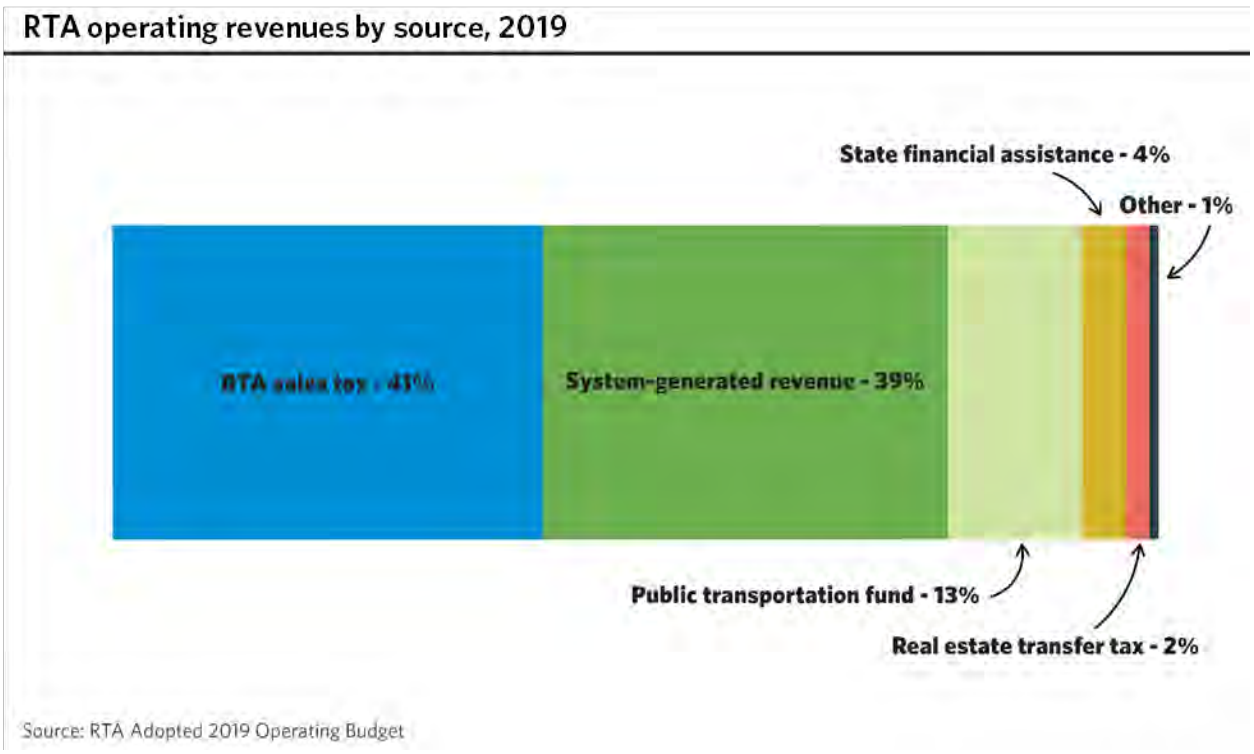
[1] RTA's sales tax revenues include Cook County's 0.25 percent portion of the state rate (as discussed further below).

[2] The Collar County estimates assume they retain their portion of the RTA sales tax rate (0.25 percent).

Background on the RTA sales tax

The RTA sales tax has long been the primary public funding source for transit in northeastern Illinois (Figure 1). First implemented in 1979, the RTA sales tax was most recently increased in 2008 to generate additional transit funding in the region.[3] While it has performed well and has recently benefitted from the Leveling the Playing Field for Illinois Retail Act – which enabled the collection and remittance of some state and local sales taxes from remote retailers and marketplace facilitators – current RTA sales tax revenues and the state match provided through the Public Transportation Fund will be insufficient to cover the transit operating budget shortfall projected to begin in 2026.[4]

Figure 1. RTA sales tax revenues made up more than 40% of the total operating revenue in 2019



Nevertheless, the RTA sales tax continues to be critical for funding transit and should serve as a cornerstone revenue source in any funding package put forth to address the looming fiscal cliff. Rather than simply raise the RTA sales tax rate, CMAP recommends the ILGA consider larger reforms and expand the state sales tax base to include services, which are largely untaxed in

[3] As of 2008, the RTA sales tax rate on general merchandise was 1.0 percent in Cook County and 0.75 percent in the Collar Counties. Cook County contributes an additional 0.25 percent (using the funds distributed from the state rate as discussed below) for an RTA composite rate of 1.25 percent. In the Collar counties, 0.25 percent of the RTA rate is distributed back to the county governments for transportation and public safety investments; therefore, a rate of 0.5 percent is distributed to the RTA for transit.

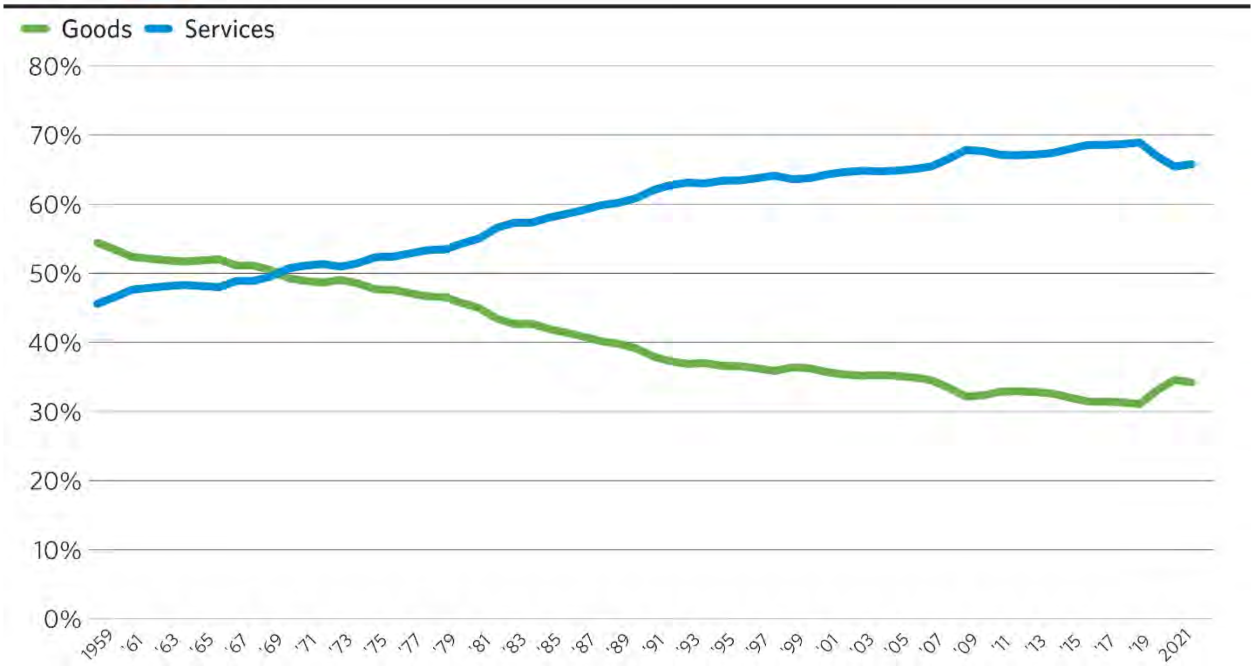
[4] "Leveling the Playing Field for Illinois Retail Act," 35 ILCS 185 Illinois Compiled Statutes § (2019), https://www.ilga.gov/legislation/ilcs/ilcs5.asp?ActID=3993&ChapterID=8.

Illinois. CMAP has previously identified this reform as a critical step toward modernizing state, regional, and local tax policies, including in ON TO 2050, the region's long-range plan.[5] By modernizing the sales tax by expanding its base, the state, counties, municipalities, and the RTA region will all be able to benefit from additional revenues collected on transactions for services.

Broadening the state sales tax base

The current Illinois sales tax primarily taxes goods (or general merchandise), rather than services. Decades of academic and policy research has suggested that imposing sales taxes on services would be a more sustainable and equitable funding mechanism for state and local governments. In part, the research is based on national consumer expenditure data that indicates consumers increasingly spend more of their household income on services rather than goods (Figure 2). Through its overreliance on goods, the sales tax in Illinois is dependent on a declining sector of the economy and, as a result, should expect uncertainty in future receipts.

Figure 2: Historic share of personal consumption expenditures by major types



Source: CMAP analysis of U.S. Bureau of Economic Analysis data

There are several advantages to broadening the tax base to include additional services:

- Service sales are less sensitive to economic downturns – purchases of goods are highly susceptible to economic downturns as households elect to reduce spending on "big-

[5] Chicago Metropolitan Agency for Planning, "ON TO 2050: The Chicago Region's Comprehensive Plan," 2018, https://www.cmap.illinois.gov/2050/.

ticket" purchases. During economic downturns, service spending can even increase as people will often defer purchases in exchange for lower-cost repairs.

- Taxing services is less regressive than taxing goods – while some household costs are relatively fixed across income bands (e.g., groceries), upper-income households are more likely than lower-income households to spend a greater share of their income on prepared foods, entertainment, and services.[6]
- Technology advancements have led to an increased focus on service-based delivery models – many products which would have been purchased (and taxed) as goods a decade ago have shifted to a service-based delivery method. For example, most software applications have shifted from one-time purchase models to a software as a service (SaaS) model, thereby becoming exempt from sales taxes.

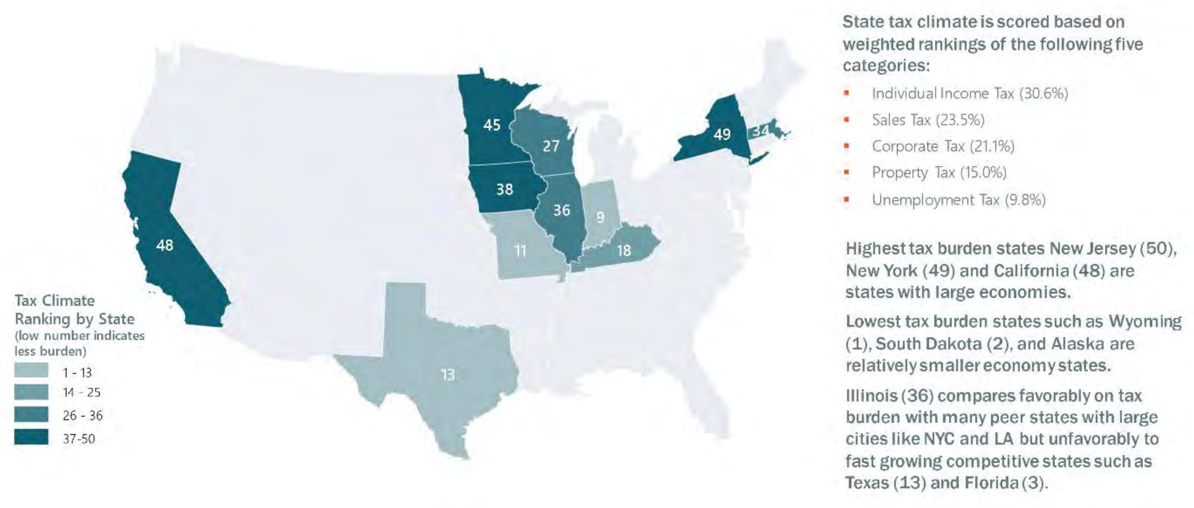
Comparing the Illinois sales tax base to peers

The State of Illinois' 6.25 percent state sales tax rate is assessed on general merchandise and qualifying food and drugs and is comprised of a 5.0 percent rate retained by the state (the state rate) and 1.0 and 0.25 percent rates distributed to municipalities and counties, respectively (the local and municipal rates). In addition to state sales taxes, home rule counties, municipalities, and special districts can impose their own sales taxes. Collectively, these rates add up to produce the composite rate, which is what consumers see when purchasing taxable goods. In Cook County and the Collar Counties, the composite rates on general merchandise range from 9.0-11.0 percent and 7.0-8.75 percent, respectively.

Although sales taxes are just one component of a state's overall tax burden, high sales tax rates have implications for equity, cost of living standards, and economic competitiveness. Illinois' state sales tax rate is currently the 13th highest in the nation, which contributes to a high-tax climate in the state.[7] Local tax rates can further increase the composite tax rate paid by consumers. The statewide average composite tax rate in Illinois ranks 8th highest nationally, and City of Chicago consumers are charged the 2nd highest sales tax rate in the nation tied with Fremont, Long Beach, and Oakland, California and Seattle, Washington. As a result, while Illinois compares favorably on tax burden with many peer states like New York and California, the Tax Federation ranks Illinois unfavorably compared to growing competitive states such as Texas and neighboring states including Indiana, Missouri, and Wisconsin (Figure 3).

[6] Pew Charitable Trusts, "Household Expenditures and Income: Balancing Family Finances in Today's Economy," March 2016, https://www.pewtrusts.org/-/media/assets/2016/03/household_expenditures_and_income.pdf.
[7] Janelle Fritts and Jared Walczak, "2023 State Business Tax Climate Index" (Tax Foundation, 2022), https://taxfoundation.org/2023-state-business-tax-climate-index/.

Figure 3. Overall tax climate rankings in peer states, 2023



Source: SB Friedman analysis of Tax Foundation data

On the other hand, when comparing the Illinois service tax base with peer or geographically adjacent states, Texas taxes the most services (90) either at the state or local level and California taxes the fewest (21). Among adjacent states, Iowa taxes the greatest number of services (89). Recent changes to the Iowa tax code expanded taxable services to include emerging industries such as streaming subscription services, electronic data storage, and other web-based services. Wisconsin similarly taxes over 80 services. In comparison, Illinois currently only taxes 29 services at either the state or local level (see Appendix A).

Recommendation: Expand the statewide sales tax base to include services and reduce the statewide sales tax rate (Option 1, 2, or 3).

To modernize the Illinois sales tax base and bolster sustainable funding for transit, CMAP recommends the ILGA expand the state sales tax base to include services. This would bring the sales tax base more in line with neighboring and peer states, who currently tax more services than Illinois. It would also make the sales tax more progressive overall.

There are many factors to consider when expanding the sales tax base to include services. The state could choose to capture a broad base of services, such as those taxed by peer states (e.g., Iowa), or it could select a narrower set of services based on various policy goals. For example, a narrower base could include only those sectors that would contribute the greatest revenues, a select set that avoids potentially negative impacts on small business service providers with limited profit margins (e.g., barbers and other personal service providers), or a variety of other permutations. To avoid tax pyramiding – taxing the same service at multiple intermediate points on its way to final sale – it is generally recommended that service taxes not be imposed on business-to-business services such as accounting or legal services.

Additionally, to ease the burden on consumers of a new services taxes, CMAP recommends it be coupled with a reduction in the state share of the existing statewide sales tax rate on general merchandize. Incremental decreases in the state rate would lower composite sales tax rates and provide relief to Illinois consumers, especially lower-income households who spend a larger share of their income on goods. Lower composite tax rates would also improve Illinois' economic competitiveness by softening the high-tax climate in the state. This could lead to less distortionary consumer activity, like traveling to purchase goods in adjacent jurisdictions, and could support businesses interested in expanding or locating within Illinois.

Sales tax revenue estimates

The beneficiaries of these options include not only the region's transit system, but also the state, counties, municipalities, and consumers statewide. As shown in Table 1 above and in the attached slide deck, SB Friedman modeled the revenue impacts of various options for expanding the state sales tax base. SB Friedman projects that increasing the number of services subject to the existing state tax rate of 6.25 percent could generate between $1.1-1.9 billion dollars for the state in 2026 (Option 1).[8] If the state <u>expands</u> the base and <u>lowers</u> their portion of the 5.0 percent statewide sales tax rate by 0.5-0.75 percent (to 4.25-4.5 percent), SB Friedman projects the state could still collect an additional $1.0-1.6 billion in 2026 (Option 2).

The impacts of an expanded base would also flow through to the RTA. If the RTA sales tax rate remains unchanged, the RTA will benefit from $212-317 million in new revenue for the transit system in 2026 (Option 1 or 2). A lower state sales tax rate could also be paired with a 0.25 percent increase in the RTA sales tax rate, which would still result in a lower composite rate overall. This would result in $861-733 million in new revenue for the transit system in 2026 (Option 3).[9] Additionally, the state's 30 percent match of RTA sales tax revenues would increase as well, which the state could fund using their own service tax windfall.

The state's composite rate of 6.25 percent is comprised of both the state share (5.0 percent) with the remaining percentages distributed to municipalities and counties (1.0 percent and 0.25 percent, respectively). Any expansion of the base should be structured to ensure new revenues from the state tax on services are similarly distributed to local governments. Using the existing distribution formulas, SB Friedman has projected that counties and municipalities in the RTA region could collect $14-26 million and $194-294 million, respectively, from service taxes in 2026. This does not include the additional funds that communities could collect through their local sales tax levies.

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[8] All sales tax revenue estimates are represented as ranges to reflect the variations between a narrow or broad base of services.

[9] This RTA revenue estimate includes the funds from expanding the base ($390-261 million) and raising the rate ($470 million).

RTA sales tax rate should only be increased alongside a base expansion

Illinois' already high sales tax distorts some consumer behavior and negatively impacts the state's economic competitiveness. Given the burden of existing composite sales tax rates, CMAP discourages increasing the RTA sales tax rate as a standalone solution to raise revenue for transit (Option 4). Doing so risks causing greater economic distortions in the region, while continuing to burden low-income households that disproportionately purchase goods.

Evaluation

Policy

Category	Rating	Rationale
Mobility	High	Expanding the state sales tax base to services would increase RTA sales tax revenues and support improved regional transit service.
Equity	High	Expanding the sales tax base to services would add progressivity to the sales tax, given that high-income households spend a greater share of their income on services than low-income households. Expanding the base could also be coupled with a reduction in the state's portion of the state sales tax rate, reducing consumer tax burdens.
Financial sustainability	High	Service tax revenues are more resilient to economic downturns and sustainable over time than sales tax revenues.
Environmental sustainability	Medium	There is not a direct impact on greenhouse gas emissions.
Economic growth	Medium	Lowering the composite sales tax rate in Illinois increases the state's economic competitiveness and brings it more in line with peer states. While introducing a new tax on some services may cause short-term shifts in consumer spending, economic activity typically evens out in the long-term.
Regional benefit	Regional	Expanding the sales tax base to services would augment RTA sales tax revenues and deliver significant annual revenues to support transit needs.

Process

Category	Rating	Rationale
Administrative feasibility	Medium	Expanding the state sales tax base to services could be implemented under existing sales tax collection mechanisms and administrative processes.
Political feasibility	Low	The state and local governments would benefit from increased tax revenues and a more stable tax base, which could generate political support for an expansion of the sales tax base. Although there have been challenges with previous efforts to expand the state sales tax base, current state funding needs make this an opportune moment to reevaluate opportunities related to modernizing the sales tax in Illinois. Consensus building and political leadership will be needed to determine whether the service tax base should be broad or narrow and how to best distribute new service tax revenues to local governments.
Timing	Medium	The implementation of a base expansion could occur by 2025, but it is unlikely that there will be full compliance with the new service taxes until closer to 2027.
State span of control	High	The state has full authority to expand the state sales tax base to services and to reduce its portion of the state sales tax rate.

Implementation steps

State legislative action
The ILGA would need to authorize any expansion of the sales tax base to services, as well as any changes to existing sales tax rates (a reduction of the state rate and/or an increase to the RTA rate). Successfully expanding the base to services will require consensus around the exact nature of the services that will be included, whether the service base will be broad or narrow, and how to best distribute the new service tax revenues to counties and municipalities across the state.

State agency action
If implemented, the Illinois Department of Revenue (IDOR) would need to administer the collection of tax revenues from service providers, including entities that may not have collected or reported sales tax revenues previously. Many service providers already sell goods and report

those sales to IDOR (i.e., shampoo sold at a barber shop), so the level of action required will vary from service to service.

Challenges

There are very few examples of states modernizing their sales tax base to include services at the scale recommended by CMAP. Additionally, some local governments in Illinois already independently tax services that have been identified for a tax base expansion. Any expansion of the sales tax base should be implemented in collaboration with a variety of stakeholders to develop buy-in, ensure ease of implementation, and maximize benefits.

Due to divergences in state disbursements to municipalities, CMAP has long recommended state disbursement formulas be reformed to help municipalities that have high service needs but currently receive relatively lower shares of state revenue.[10] Although these disbursement formulas include additional state funding beyond the local government disbursements of state sales tax revenues (use, income, and motor fuel tax revenues are distributed based on population), sales tax revenues are currently distributed based on where sales are generated. This creates variations depending on local land use decisions and the resulting development patterns in different communities. An expansion of the sales tax base to services in Illinois – which would result in additional revenues for many communities – could provide an opportunity for the ILGA to revisit state disbursement formulas.

[10] Chicago Metropolitan Agency for Planning, "Divergences in State Revenue Disbursements," June 28, 2018. https://www.cmap.illinois.gov/updates/all/-/asset_publisher/UIMfSLnFfMB6/content/divergences-in-state-revenue-disbursements

MEMO

To: Chicago Metropolitan Agency for Planning (CMAP)

From: SB Friedman Development Advisors
312-384-2407, rbose@sbfriedman.com

Date: August 18, 2023

RE: Plan of Action for Regional Transit – Sales Tax Analysis & Key Recommendations

Introduction: The Transit Funding Challenge

The Regional Transportation Authority (RTA) is the Chicago region's government agency responsible for overseeing the regional transit system. The RTA coordinates needs between the Chicago Transit Authority (CTA), Metra, and Pace Suburban Transit (Pace), collectively the "Service Boards." The RTA region includes Cook County as well as DuPage, Kane, Lake, McHenry, and Will Counties (the "Collar Counties"). In addition to ensuring the six-county region has access to reliable, accessible and equitable transit, the RTA is responsible for overseeing the system's current and future financial planning. RTA's operations are funded by a combination of sources, including funding from the State of Illinois, farebox revenues, and an RTA-specific regional sales tax (RTA Sales Tax).

Over the past decade, funding for transit in Illinois has been insufficient to maintain and improve transit operations in the RTA region. This trend of lagging operational funding was exacerbated by the COVID-19 pandemic, as declines in farebox revenues heavily impacted the RTA's traditional funding structure. To ensure service through the pandemic despite declines in ridership, the RTA received multiple rounds of federal relief funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act passed in March of 2020, the Coronavirus Response and Relief Supplemental Appropriations (CRRSAA) Act of 2021, and American Rescue Plan Act of 2021 (ARPA). A combined $3.4 billion in federal relief funded approximately 20% of the RTA's operations annually since the pandemic. With federal relief set to expire in 2025 and ongoing declines in ridership relative to pre-pandemic levels, the RTA and the Service Boards must identify a long-term operational funding solution. In the absence of the current federal funding, RTA is forecasted to have a $700M+ annual shortfall in revenues required to maintain the current level of operations.

Purpose and Framework of Memorandum

The Chicago Metropolitan Agency for Planning (CMAP) has been tasked by the Governor and the General Assembly of the State of Illinois to prepare a report of recommendations to the Illinois legislature in response to the imminent budget shortfall. CMAP has engaged SB Friedman to prepare a report on potential reforms to the current RTA Sales Tax which could be leveraged to offset the impending gap as a part of their report of legislative recommendations, known collectively as the "Plan of Action for Regional Transit" (PART). As the largest existing source of funding for the RTA, the RTA Sales Tax is one of the primary funding mechanisms contemplated to meaningfully address the shortfall. An RTA Sales Tax is currently imposed on the sale of goods in the RTA region. The following memorandum is structured to provide the following:

- An overview of sales taxes in Illinois and how it is used to fund transit (Page 2);
- A background on the rationale for implementing a sales tax on services (Page 6); and
- A summary of alternate "scenarios" to raise revenues to mitigate the anticipated transit funding shortfall (Page 11).

Summary of Findings

SB Friedman tested four "scenarios" related to adjustments to the RTA Sales Tax. Each tested scenario has relative strengths and weaknesses but has the potential to improve the short- to long-term financial stability of the RTA. The scenarios and a brief summary of their potential impact are as follows:

- **Raising the Rate Scenario** – a scenario in which the RTA Sales Tax rate is universally increased by 0.25% across the RTA region. This scenario would result in approximately $470 million in additional annual revenues to the RTA in 2026.
- **Broaden the Base Scenario** – a scenario in which the current Illinois sales tax rates are applied to a range of services currently excluded from the Illinois sales tax base. This scenario would result in approximately $457 million in additional RTA Sales Tax collections in 2026, depending on which services are included.
- **Broaden the Base, Reduce the Rate** – a scenario that assumes RTA and Illinois impose a new sales tax on services, while simultaneously reducing the Illinois sales tax rate. This scenario could also result in $213 million to $317 million in additional revenues to the RTA by 2026, depending on which services are included.
- **Broaden the Base, Adjust Sales Tax Rates** - a scenario that assumes RTA and Illinois impose a new sales tax on services, reduces the Illinois sales tax rate, and increases the RTA Sales Tax rate by 0.25% in Cook and Collar Counties. This scenario would result in additional revenues to the RTA in 2026 from $730 million to $860 million, depending on the services selected.

More detail on the current sales tax structure in Illinois, the rationale for imposing service taxes, SB Friedman's methodology, and each tax scenario is further described below.

Sales Tax 101

According to the Illinois Comptroller, the taxes imposed on the purchase of goods, i.e., sales taxes, are the State's second largest revenue source. In fiscal year 2023, the State retained approximately $11.5 billion in revenues from sales tax. The State of Illinois sales tax base primarily consists of tangible goods rather than services. Prior to 1980, purchases on "Qualifying Food and Drugs" (QFD) were subject to the full Illinois sales tax rate until a rate reduction was applied to QFD sales. The Illinois Department of Revenue (IDOR) defines the primary two categories of tax-eligible merchandise as follows:

- **General Merchandise (GM)**: includes the sale of most tangible personal property including the sales of soft drinks and candy, prepared foods, photo processing, pre-written software, etc.
- **Qualifying Food and Drugs (QFD)**: includes food that has not been prepared for immediate consumption, prescription medications, and nonprescription items that have medicinal value (e.g., corrective eyewear, prostheses).

As of 2023, the State of Illinois sales tax rate is 6.25% on the sale of GM, and 1% for QFD. The State itself only retains the equivalent of a 5% rate on the sale of GM. The equivalent of a 1% rate on sales of GM is redistributed to the municipal government in which the sale occurred. The equivalent of a 0.25% rate on sales of GM is redistributed to the county in which the sale occurred, with the exception of Cook County, where those funds are instead directed to the RTA.

Some local entities are also enabled by Illinois State law to levy additional sales taxes within their jurisdiction. These entities include Home Rule and Non-Home Rule municipalities, county governments, and the RTA, which has been enabled to impose a local sales tax within the RTA region to fund transit operations. These local jurisdictions may levy additional sales taxes on top of the State's 6.25% rate, applied to the same sales tax base. The nature of the Illinois sales tax structure, whereby multiple taxing bodies apply sales tax rates to the same tax base, results in relatively high composite sales tax rates in municipalities throughout Illinois.

For example, the composite tax rate for Cook County on GM ranges from 9-11% depending on the municipality. In Cook County, the largest share of the State's 6.25% rate (5%) goes directly to the State of Illinois, the second largest share of the State rate (1%) is distributed to local municipalities within Cook County, whereas the smallest share of the State rate (0.25%) is distributed to the RTA. Additionally, Cook County imposes a 1.75% County Home Rule sales tax, with local governments taxing up to 2% in additional municipal sales taxes, and the RTA levying an RTA Sales Tax rate of 1% in Cook County **(Figure 1).**

Composite rates in the Collar Counties are slightly lower than Cook County, ranging from 7% to 8.75%. The State's rate of 6.25% is comprised of 5% which is retained by the State, 1% which is retained by the municipality of sale, and 0.25% which is allocated to the county government where the sale occurred. Since none of the Collar Counties are County Home-Rule, sales on GM are only subject to municipal Home Rule and Non-Home Rule sales taxes which do not exceed rates of 1.75%, and the RTA Sales Tax rate of 0.75% (of which two-thirds is distributed to the RTA) **(Figure 2)**.

The RTA Sales Tax consists of several components phased in over the past 50 years. The RTA Sales Tax was initially implemented in 1979 (RTA Sales Tax Part I) as a 1% tax rate on GM sold in Cook County and a 0.25% rate in the Collar Counties.

In 2008, Illinois passed transit funding reforms, including increases to the RTA Sales Tax rate in Cook and the Collar Counties (RTA Sales Tax Part II). In the Collar Counties, the RTA Sales Tax rate on both GM and QFD increased from 0.25% to 0.75%. Half of the new 0.5% RTA Sales Tax increase is allocated directly to Collar County governments for transportation and public safety related funding. Therefore, the RTA's portion of the RTA Sales Tax rate in the Collar Counties is effectively 0.50% of receipts on GM and QFD. In Cook County, RTA Sales Tax Part II resulted in a 0.25% rate increase of the RTA Sales Tax on QFD and GM to the RTA. As a result, in Cook County, the RTA receives revenues from the 1% RTA Sales Tax rate, as well as the 0.25% portion of the state rate.

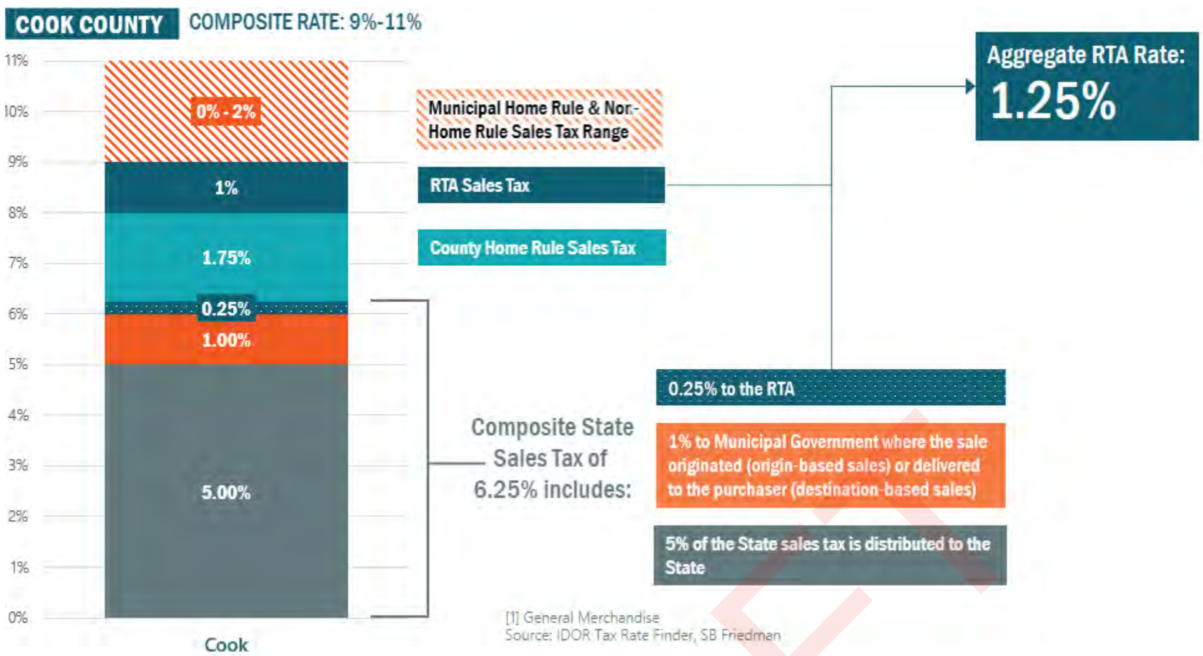
These rates and distributions are further highlighted in **Table 1 and Figures 1 and 2.**

Table 1. Current RTA Sales Tax Rates

	GM Rate	QFD Rate
Cook County	**1.25% [1]**	**1.25%**
Collar Counties	**0.50% [2]**	**0.50% [2]**

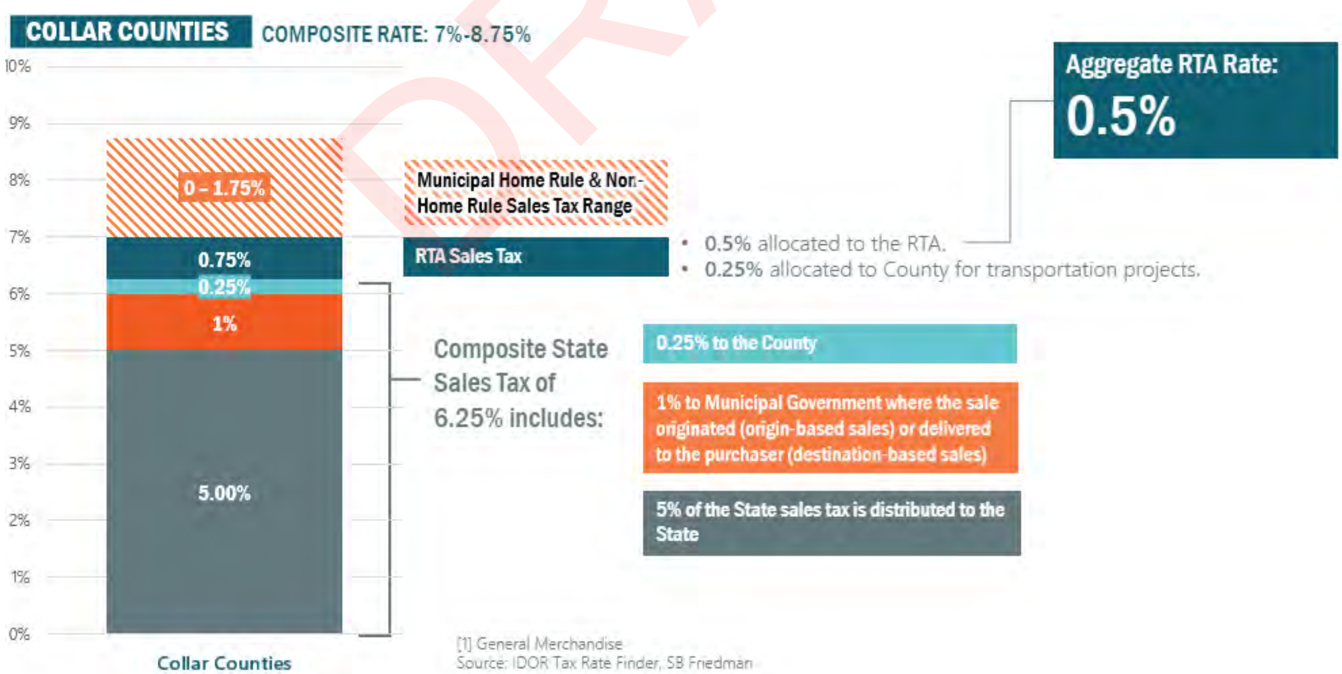
[1] Includes the RTA's share of the State's 6.25% rate
[2] RTA portion of 0.75% RTA Sales Tax rate

Figure 1. Composite GM Sales Tax Rate, Cook County



Source: Illinois Department of Revenue Tax Rate Finder, SB Friedman

Figure 2. Composite GM Sales Tax Rate, Collar Counties



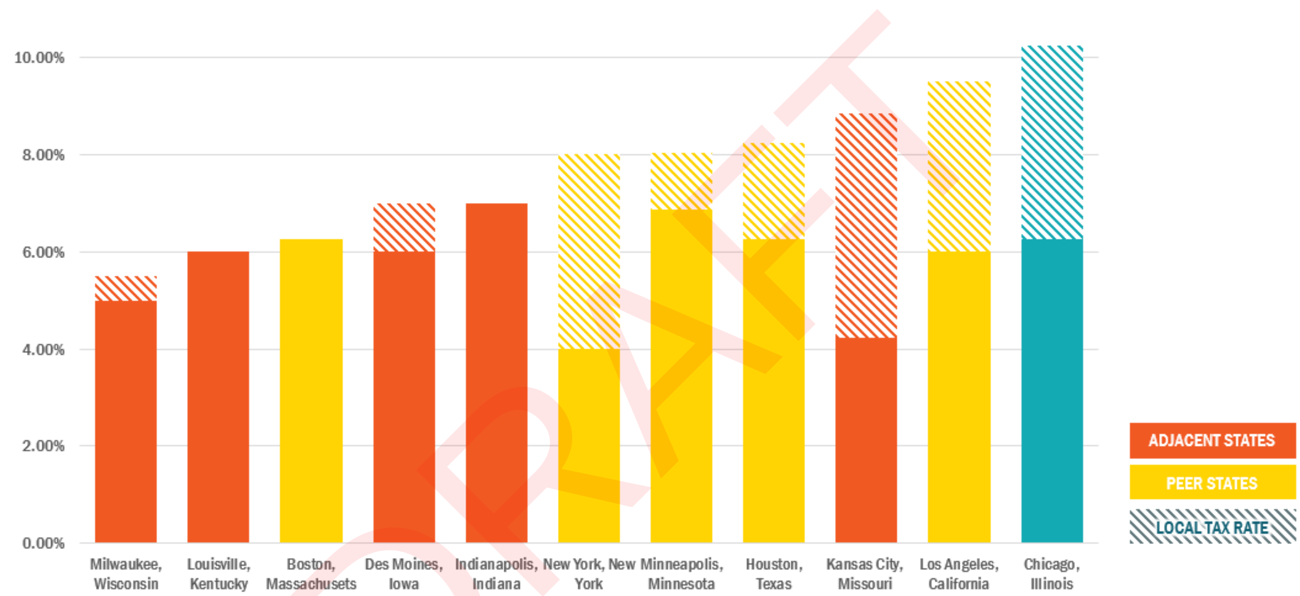
Source: Illinois Department of Revenue Tax Rate Finder, SB Friedman

CHALLENGES WITH SALES TAX FUNDING IN ILLINOIS

Approaching the Highest Sales Tax Rate in the Nation

The State of Illinois sales tax rate is currently the 13th highest rate in the country while the Illinois combined average state and local tax rate is the 8th highest nationally.[i] Local sales tax rates in the RTA region are also some of the highest statewide and the City of Chicago is presently tied for the 2nd highest sales tax rate nationally. Peer cities—defined here as largest city in directly adjacent states and largest cities in states with similar economic conditions—Chicago ranks highest in composite sales tax rate at 10.25% (see **Figure 3** for full comparison of peer cities). While sales tax is only one component of consumer tax burden and overall economic climate, high tax rates could impact future competitiveness of the region in attracting and retaining businesses and/or qualified employees.

Figure 3. Composite Tax Rate of Largest City in Peer and Neighboring States



Source: Avalara, State Department of Revenue websites

Regressive Nature of Sales Taxes

Sales taxes are a regressive method of taxation, as the tax absorbs a larger proportion of a lower-income taxpayer's income despite both lower- and higher-income taxpayers being subject to the same sales tax rate. Sales taxes may appear to be fair, as all households pay the same rate regardless of household income; however, they create a larger burden on low-income households who have less discretionary income after accounting for basic needs. Many states, including Illinois, attempt to mitigate negative effects of such a regressive tax by exemption (or lowering the rate) on necessary goods, such as groceries and prescription drugs.

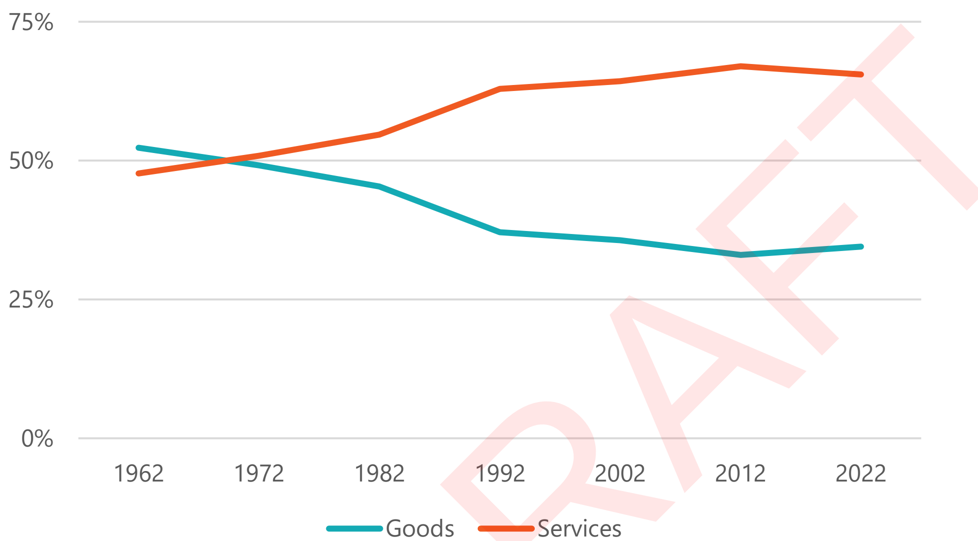
Contradictions to the Horizontal Equity Principle

According to most tax policy experts, taxes are meant to achieve "horizontal equity," or result in taxpayers with similar economic circumstances being affected the same way[ii]. Sales taxes that apply to goods but not services introduce inequity through consumption preferences. In other words, two taxpayers with similar incomes that spend and save at similar rates may pay significantly different amounts of sales taxes. If one taxpayer chooses to purchase diapers, for example, and another taxpayer chooses to pay for a diaper service, the consumption of goods will lead to a much higher tax liability than the consumption of services.

The Case for Taxing Services

The current Illinois sales tax structure primarily taxes goods, rather than services. Decades of academic research has suggested that imposing sales taxes on services would be a more sustainable and equitable funding mechanism for state and local governments. In part, these conclusions are based on national consumer expenditure data indicating consumers spend most of their household income on services rather than goods. **Figure 5** below illustrates the nearly 50-year national shift from goods consumption to service consumption. In 1972, household expenditures were evenly split between goods and services. In 2022, approximately 66% of all household expenditures were reported to be on services and only 34% on goods.

Figure 4. Proportion of Personal Consumption Expenditures on Goods vs. Services.



Source: Federal Reserve Economic Data, Table 2.8.5 Personal Consumption Expenditures by Major Type of Product.

There are several other benefits of taxing services as well as goods:

- **Service sales are less sensitive to economic downturns** – purchases of goods are highly susceptible to economic downturns as households elect to reduce spending on "big-ticket" purchases. During economic downturns, service spending can even increase as people will often defer purchases in exchange for lower-cost repairs.
- **Technology advancements have led to an increasing focus on service-based delivery models** – many products which would have been purchased as goods a decade ago, and therefore susceptible to a sales tax, have shifted to a service-based delivery method. For example, most software applications have shifted from one-time purchase models to a software as a service (SaaS) model, thereby becoming exempt from sales taxes.
- **Illinois' peer and neighboring states have already included services into their sales tax bases** – many states across the country already tax services—ranging from comprehensive gross receipts tax (HI) to a small selection of ad hoc services (IL). Five of the six of Illinois' neighboring states tax more services than Illinois at the state and/or local level.[iii]
- **Simplifying the sales tax system** – taxing consumer services in addition to consumer goods simplifies the sales tax system by lessening the distinction between non-taxable products and services and taxable products

and services.[iv] Streamlining the sales tax system to include consumer services reduces the labor-intensive arbitration of what is to be considered taxable or not.

Possible downsides to taxing sales of services including tax pyramiding effects, artificial incentives for "vertical integration," and adverse effects on a state's "competitiveness."[v] Negative impacts of service taxation are primarily a result of taxing business-to-business (B2B) sales, or business inputs. Tax pyramiding, where taxes on B2B transactions are passed through to the consumers and compounded upon taxes levied on business-to-consumer (B2C) transactions, increases the tax burden of consumers. Additionally, in instances where outsourced services become more expensive due to the introduction of a new tax, large firms gain a competitive advantage through their ability to transition the service "in house." This artificial pressure to vertically integrate can price out smaller firms and create inefficiencies in a pre-existing service market where independent service providers can typically provide a service more efficiently than a cheaper, in-house option. Finally, the broad taxation of business inputs, or the taxation of a necessary high-cost input, could adversely impact the region's economic competitiveness.

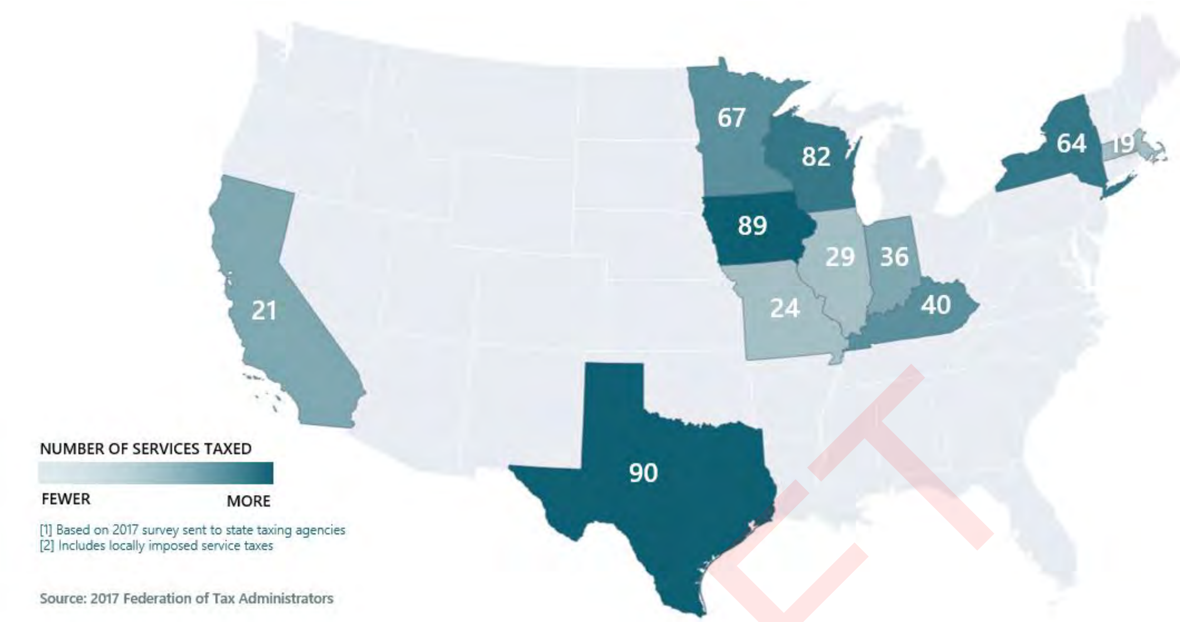
While Illinois does not widely tax services statewide, both peer states and municipalities within Illinois already impose sales taxes on specific services. As of 2017 according to the Federation of Tax Administrators survey, 29 services were taxed by Illinois and/or local municipalities, including taxes on utility services. Primary services taxed by the State of Illinois or local governments within Illinois according to the survey, include the following:

Utility Service (Residential & Industrial Uses) – Intrastate Telephone & Telegraph Services, Cellular Telephone Services, Electricity, Natural Gas, Other Fuel.
Select Personal Services
Business Services – Photo Finishing Services
Computer Services – Packaged Software
Computer Online Services – Downloaded Software
Automotive Services – Parking Lots & Garages (Local)
Admissions & Amusements – Amusement Park Admissions, Billiard Parlors, Bowling Alleys, Cable TV Services, Circuses & Fairs, Admission to Professional Sports Events, etc. (Local)
Leases & Rentals – Short Term Automobile Rental, Long Term Automobile Lease, Aircraft Rental, Hotels, Motels & Lodging Houses

SB Friedman compared the existing tax base for services in Illinois against 10 peer states which are either economically comparable or geographically adjacent. Of the peer states, Texas currently taxes the most services (90) at the state or local level, and the fewest service taxes are imposed at the state or local level in Massachusetts (19) (see **Appendix A** for full list of services taxed in peer states).

Among adjacent states, Iowa taxes the greatest number of services statewide and/or at the local level (89). Recent updates to the Iowa tax code refined taxable service categories to include emerging industries such as streaming subscription services, electronic data storage, and other web-based services. Wisconsin similarly taxes 82 services at the state and/or local level, while Indiana and Kentucky each impose sales taxes on approximately 40 services either at the state level and/or locally. Among adjacent states, Missouri taxes the fewest services, 24 at the state and/or local level.

Figure 5. Number of Services Taxed in Peer and Neighboring States



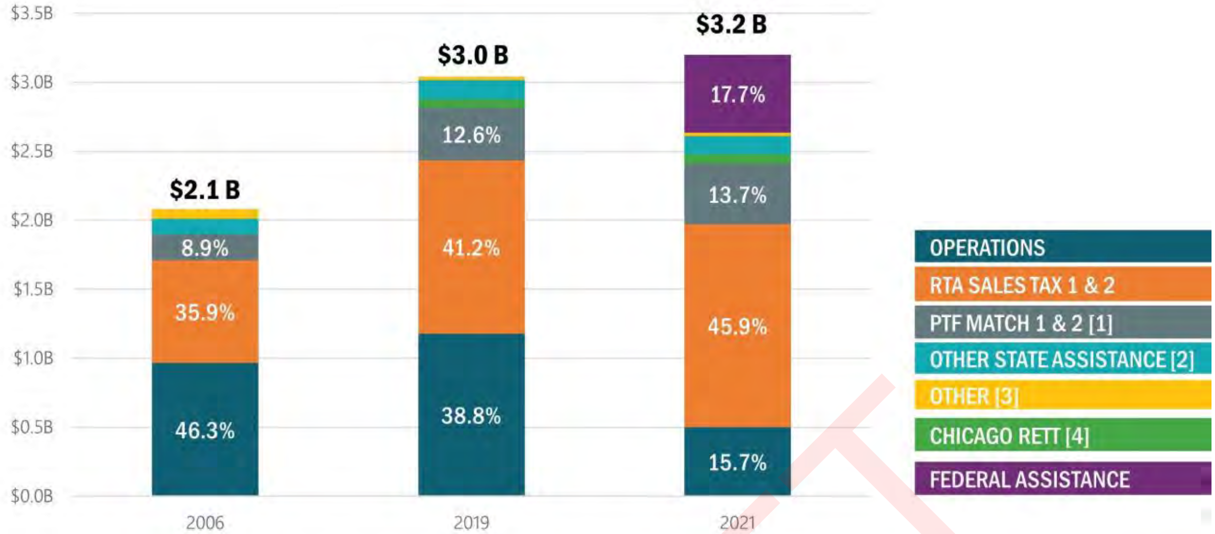
Sales Tax Funding for the RTA and Impending Funding Gap

The RTA Sales Tax was initially introduced in 1979 to reduce the RTA's reliance on state funding subsidies and the Motor Fuel Tax (MFT). Over the past 15 years, the RTA Sales Tax has accounted for an increasing share of the overall RTA annual operations, from 35.9% of the total budget in 2006 to 45.9% in 2021. In part, the RTA Sales Tax has been capable of absorbing a greater share of the annual RTA budget due to consistent growth in sales of consumer goods and 2008 tax reforms increasing the RTA Sales Tax rate.

In addition to increased sales tax collections due to consumer increases in spending, several notable events have impacted RTA revenues since 2008. Those events included:

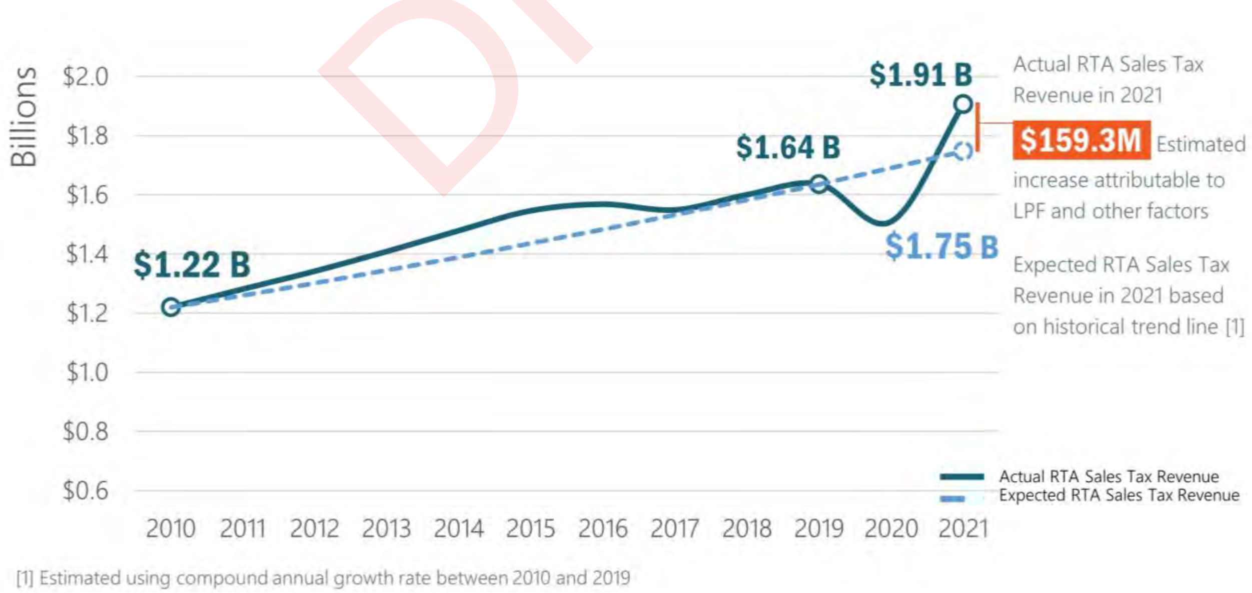
- **2008 RTA Funding Reforms –** In 2008, the effective RTA Sales Tax rate was increased to 1.25% on receipts of both GM and QFD in Cook County and 0.75% (0.50% to RTA and 0.25% retained by Counties) in the Collar Counties to compensate for declines in consumer spending on goods and RTA funding shortfalls.
- **COVID-19 pandemic** – The COVID-19 pandemic had a dramatic impact on transit ridership. The combined RTA system continues to report regional ridership for 2023 at 56% of pre-pandemic levels, according to the Proposed 2023 Operating Budget, Two-Year Financial Plan and Five-Year Capital Program. Operations revenues accounted for nearly 39% of all revenues in 2019, down to 16% in 2021.
- **Leveling the Playing Field for Illinois Retail Act** – The Leveling the Playing Field for Illinois Retail Act (Leveling the Playing Field), effective January 2021, required that remote retailers begin collecting and remitting Illinois sales taxes on most online purchases. SB Friedman estimates that Leveling the Playing Field resulted in an additional $159.3M in RTA Sales Taxes in 2021, as detailed in **Figure 7**.

Figure 6. RTA Revenues by Source, 2006, 2019, 2021.



[1] Prior to 2008, the Public Transportation Fund matched 25% of RTA Sales Tax collected. After 2008 legislation, this match effectively is equivalent to 30% of all RTA Sales Tax collected, as well as 30% of the RTA's City of Chicago Real Estate Transfer Tax collections.
[2] State Financial Assistance: State-provided assistance to reimburse the RTA's debt service on Strategic Capital Improvement Program (SCIP) bonds. It consists of two components: Additional State Assistance (ASA) and Additional Financial Assistance (AFA).
[3] Includes Federal Discretionary Funding, JSIF Reserves and other RTA Revenue.
[4] 2008 legislation enacted a $1.50 per $500 of sales price tax on the transfer of property within the City of Chicago for transit. This tax is collected by the RTA and wholly distributed to the CTA, however, its revenues are matched at 30% by the Public Transportation Fund.
Source: Adopted 2008, 2021 and 2023 Operating Budgets, Two-Year Financial Plan, RTA System Generated Revenues and Public Funding Revenues

Figure 7. Impact of the Leveling the Playing Field on RTA Sales Tax Collections



Source: IDOR, SB Friedman

RTA SALES TAX PROJECTIONS

SB Friedman prepared a revenue forecast model for RTA Sales Tax collections based on historic collections, tax rates, and growth rates to estimate future revenues. The following key assumptions were used in SB Friedman's projections of future RTA Sales Tax revenues:

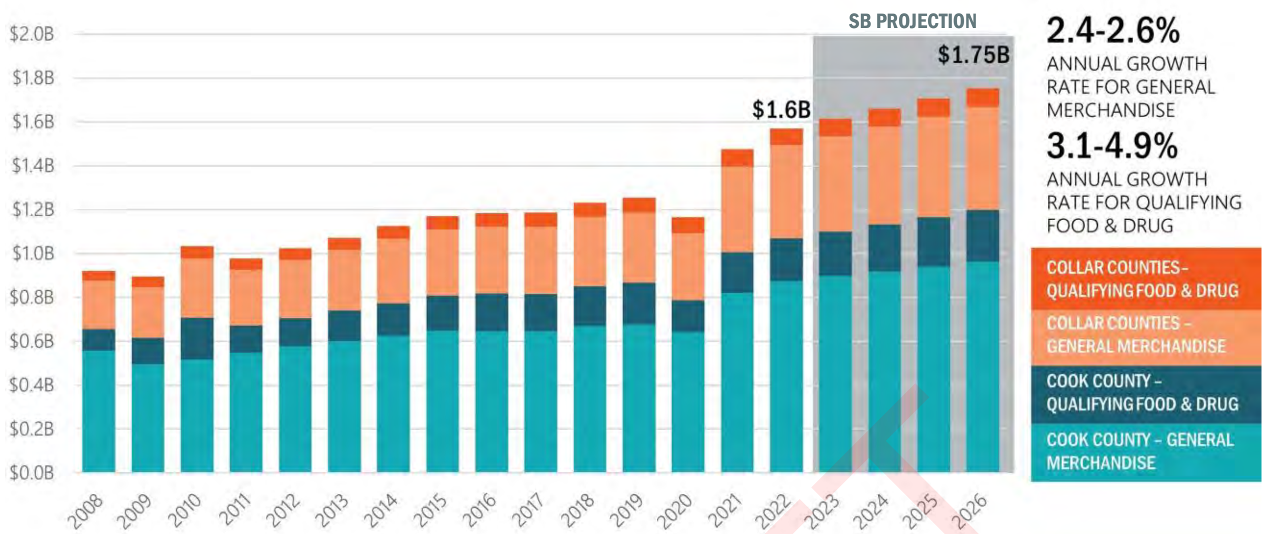
- **Base Sales Tax Receipts –** SB Friedman estimated RTA Sales Tax collections in 2022 for Cook and the Collar Counties using publicly available data from the IDOR and assumptions consistent with prior years.

- **Growth Rates** – SB Friedman forecasted RTA Sales Tax collections for Cook and the Collar Counties from 2023 through 2027 using the 2011 to 2019 Compound Annual Growth Rates (CAGRs). The growth rates assume continued growth in sales tax collections without any significant near-term recession, as these years represent a stable period of growth in the economy and were not impacted by economic instability caused by the COVID-19 pandemic or other legislative changes that impacted sales tax collections. SB Friedman utilized CAGRs of 2.4% and 4.9% for GM and QFD, respectively, to project sales tax collection growth from 2023 onward in Cook County. In the Collar Counties, SB Friedman used CAGRS of 2.56% and 3.12% for GM and QFD, respectively, to project future sales tax collection growth.

- **Revenue Adjustments –** The RTA Sales Tax is subject to two loss factors which reduce actual RTA Sales Tax collections available to the RTA. The SB Friedman forecast accounts for the following adjustments:
  - **IDOR Local Sales Tax Administrative Fee –** The General Assembly adopted a 2% administrative fee collected on any locally imposed sales taxes in 2018. In 2019, the fee was reduced to 1.5%, which currently applies to any locally imposed sales tax collections, including the RTA Sales Tax.
  - **Collar County Share of RTA Sales Tax –** Sales tax reforms in 2008 increased the RTA Sales Tax rate to 0.75% in the Collar Counties, however one third (0.25%) of the new tax goes directly to a transportation fund in the corresponding county. Therefore, the RTA only receives sales tax collections of 0.5% on sales of GM and QFD.

Without any change to the RTA Sales Tax rate or the Illinois sales tax base, SB Friedman projects an increase in RTA collections from $1.6 billion in 2022 to $1.75 billion in 2026. In this baseline sales tax forecast, sales tax collections in Cook County continue to account for a greater share of revenues than the Collar Counties. Historic and forecasted annual collections are illustrated in **Figure 8** below.

Figure 8. RTA Historic & Forecasted Sales Tax Collections Without Changes to the RTA Sales Tax Rate



Source: Illinois Department of Revenue SIC Code Reporting 2008 – 2022, Regional Transportation Authority Annual Budgets, SB Friedman

While the RTA is expected to collect more revenue from the sales tax in the coming years, these new revenues are not sufficient to fill the gap left by lower ridership levels since the onset of the COVID-19 pandemic and the expiration of federal relief funding in 2025.

Scenario Testing to Close the Gap

To address the transit funding challenge in the Chicago region, SB Friedman, in collaboration with CMAP, tested several scenarios to illustrate the potential revenues that may be realized by the RTA if the sales tax rate was increased, the sales tax base was expanded to include services or hybrid combinations of rate changes and broadening of the sales tax base were considered. The scenarios are briefly outlined below and explained further in the following sections of this memorandum:

1. **Raise the RTA Rate Scenario:** Raising the current RTA Sales Tax rate
2. **Broaden the Base Scenario:** Expanding the Illinois sales tax base, and thus the sales tax base for the RTA and other local taxing jurisdictions, to include various services not currently taxed in Illinois
3. **Hybrid Scenarios**: Expanding the Illinois sales tax base to include various services not currently taxed in Illinois, while adjusting sales tax rates to achieve various policy goals. The Hybrid Scenarios leverage additional new revenues from an expanded Illinois sales tax base to facilitate reductions to the Illinois base sales tax rate, while maintaining current collections. The methodology is further explained in the Hybrid Scenarios section and depicted in **Figure 9** below. The two Hybrid Scenarios analyzed are as follows:
   A. **Broaden the Base and Lower the State Sales Tax Rate** – State sales tax revenues remain whole with a decreased State sales tax rate both on goods and services due to the broadened sales tax base.
   B. **Broaden the Base, Lower the State Sales Tax Rate and Raise the RTA Rate Scenario**– decreases the Illinois sales tax rate on both goods and services so that the State remains whole and increases the RTA Sales Tax rate on both goods and services to bolster the RTA's revenues from sales tax.

RAISE THE RATE SCENARIO

To address this anticipated 2026 revenue shortfall, the RTA's 10-Year Financial Plan Working Group has identified increasing the RTA Sales Tax rate as one potential option to ensure the financial stability of the RTA moving forward. As a longstanding revenue source to the RTA, an increase in the RTA Sales Tax would require a relatively simple administrative change and could be implemented in the near term. Expanding on the analysis conducted by the Working Group, SB Friedman tested the revenue implication of raising the RTA Sales Tax rate by 0.25% in Cook County and the Collar Counties for both GM and QFD purchases, maintaining the IDOR surcharge and sales tax growth rate assumptions noted above.

SB Friedman assumed a reduction in overall consumer spending in the Raising the Rate Scenario based on academic research indicating that consumer spending may see a proportionate decline in sales after a sales tax increase.[vi] Research conducted on behalf of the Center on Budget and Policy Priorities did not definitively find that increases in sales taxes result in a long-term decline in consumer expenditures but concluded that assuming a corresponding decline in sales equivalent to the additional rate reduces the risk of over-projecting revenue yields, and thus is a conservative approach.[vii]

In the Raising the Rate Scenario, SB Friedman therefore made two adjustments to the base revenue forecast scenario:

1. Incorporated a 0.25% reduction in consumer spending on GM and QFD purchases; and
2. Increased the RTA Sales Tax rate by 0.25% in both Cook County and the Collar Counties for GM and QFD purchases.

The Raising the Rate Scenario results in an estimated $470 million in additional revenues to the RTA in 2026. Approximately $265 million of the revenues are attributable to Cook County, $205 million from the Collar Counties. The breakdown of estimated additional tax collections by geography is included in **Table 2** below.

Table 2. Effect of Increasing the RTA Sales Tax Rate

	Assumed RTA Sales Tax Rate Increase	Additional Sales Tax Revenue to the RTA
Cook County GM	0.25%	$214.8M
Cook County QFD	0.25%	$52.6M
Cook County Total Additional Revenues		**$267.4M**
Collar Counties GM	0.25%	$172.7M
Collar Counties QFD	0.25%	$31.4M
Collar Counties Total Additional Revenues		**$204.1M**
Total Additional RTA Revenues		**$471.5M**

Source: SB Friedman

The additional $470 million in revenues generated in 2026 from a 0.25% RTA Sales Tax rate increase have the potential to cover 60-65% of the $700M+ budget shortfall anticipated in 2026. While increasing the RTA Sales Tax rate would contribute to a substantial reduction of the RTA's anticipated budget shortfall, increasing the rate is not without risk – including a disproportionate impact on lower-income households and increasing the already high composite tax rate. Additionally, an even higher sales tax rate may challenge the region's economic competitiveness, as sales tax rates are heavily weighted in overall tax burden. While it may be reasonable – and even necessary – to increase the RTA Sales Tax rate in the near term, more comprehensive solutions that modernize the sales tax should be prioritized in the long-term.

BROADEN THE BASE SCENARIO

SB Friedman tested the revenue implications of expanding the sales tax base to include services. As stated previously, the benefits of taxing services include insulation from economic volatility, improving horizontal equity, and continuation of necessary revenue streams despite changing consumption patterns. Taxing services appears to be a viable option to generate new revenue for the RTA. It may be implemented in the short to medium term to minimize the impending funding gap and provides a long-term solution to transit funding shortfalls.

SB Friedman modelled additional services to be included in Illinois' tax base based on the services taxed by the State of Iowa. Iowa taxes the most expansive set of services of any of Illinois' neighboring states and provides an informative example of service taxation methods. For clarity, the additional services analyzed in this report were grouped into the following categories of similar services (see **Appendix B** for full list of services and categorization):

- Computing & Streaming Services
- Consumer Goods Repair Services
- Maintenance & Repair Services
- Personal Services
- Businesses & Financial Services
- Recreational Services
- Storage Services
- Textile Services & Repair
- Vehicle Services
- Other Services

Notably, the specifics of which individual services to be taxed is a matter of public policy, so the list of services analyzed in this report is not necessarily exhaustive of all possible services that could be taxed and should not be considered representative of potential future tax policy. However, the list does provide a substantive starting point for a service tax base with precedent from an adjacent state. To account for multiple permutations of future policy, SB Friedman (with guidance from CMAP), created three distinct groups of services, or "Options," to test along with the Status Quo in the following Broadening the Base Scenarios:

1. **Status Quo –** represents the projected revenue in 2026 at current rates and tax base. This Option was modeled to provide a comparative baseline for analysis of alternative sales tax options and would not result in a reduction in the estimated funding gap for the RTA.
2. **Expansive Services Option** – broadens the sales tax base in Illinois to closely match all taxable services in Iowa.
3. **Top Performers Option** – broadens the sales tax base to include only the top three performing service categories by sales: Computing & Streaming Services, Business and Financial Services, and Vehicle Services.
4. **Equity Option** – broadens the sales tax base to include services which would more likely be provided by larger businesses and used by higher-income households thereby limiting the impact on small-businesses and lower-income consumers. For example, within the Vehicle Services category, armored car and personal transportation services are taxed, while motorcycle, scooter and bicycle repairs are not.

Detailed descriptions of each Option and their implications on future revenue is provided later in this section.

Methodology

SB Friedman utilized data on sales within each service category from the 2017 Economic Census to estimate sales within each service and grouped into service category. This data was compiled at the State and RTA-region levels for the purpose of analysis and include:

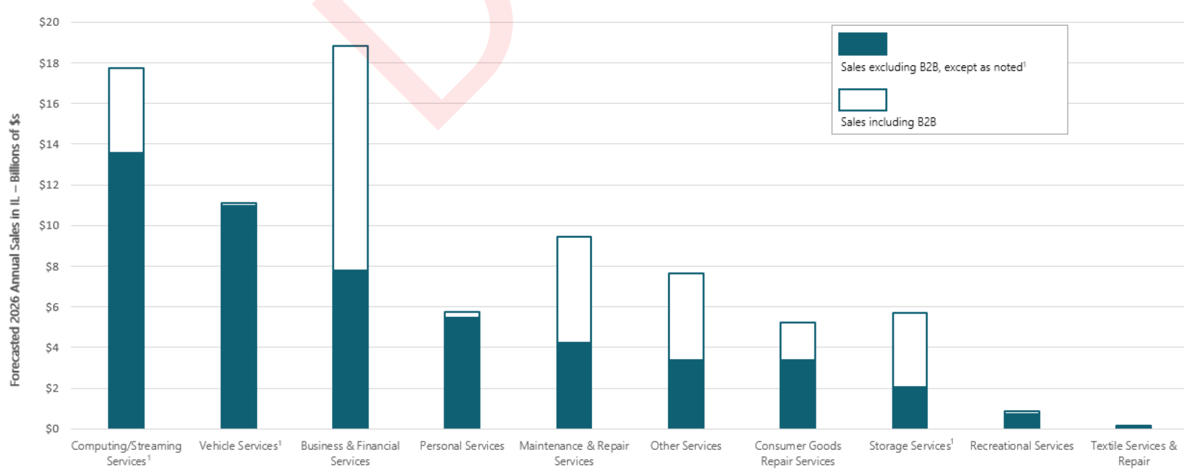
- **Crosstabulation of Sales by Product Code and Industry Sectors**: The cross tabulation of sales by North American Industry Classification System (NAICS) industry sectors with North American Product Classification System (NAPCS) product codes provides the detail of the proportion of industry sales made on specific goods and services. For example, a specific service such as vehicle repair may be provided by multiple industry sectors such as Machine Shops, Motor Vehicle Towing and Motor Vehicle Body Manufacturing. By matching the detailed services list to the NAPC product codes it was possible to estimate total sales of a particular service (such as vehicle repair) across multiple industry sectors. A crosstabulation of NAPCS and NAICS sales data is only available in state and national geographies. Data for Cook and Collar Counties were derived from county-level NAICS data and the crosstabulations at the state and national levels.[viii]

- **Exclusion of Business-to-Business Services:** One primary argument against sales taxes on services is that taxing services will result in tax pyramiding, an event where taxes on B2B transactions are passed through and compounded on taxes levied on B2C transactions. Tax pyramiding results in the taxation of a single good or service at multiple points, ultimately increasing prices to consumers. Some services taxed in Iowa, including Office and Business Machine Repair, are excluded in SB Friedman's analysis as they are assumed to primarily consist of B2B transactions. The practice of excluding these service categories has precedent, as most states exclude B2B sales through either exemptions or outright exclusion from the tax code.

  In each of the following Service Tax Scenarios, SB Friedman has included proportional factors on total sales receipts from certain service industry sectors to exclude B2B transaction sales and estimate sales attributable to the final consumer. The methodology used to arrive at these proportional factors utilized a combination of previously established Final Use Rates (percentage of sales made by the final user, or consumer) by the Commission of Government Forecasting & Accountability of the Illinois General Assembly and Bureau of Economic Analysis Use Tables. A detailed table of service sectors and their proportion of sales assumed to be comprised of B2B transactions is included in **Appendix C**.

  While SB Friedman incorporated assumptions on which services would be excluded from the collection of sales taxes for modeling purposes, ultimately the decision on which service categories and specific services which would be subject to a new service tax is a matter of policy and under the purview of IDOR and the General Assembly.

Figure 9. Reduction in Sales of Services After Exclusion of B2B



Source: 2017 Economic Census, Service Annual Survey 2013-2021, Bloomberg Tax, BEA Use Tables, Illinois Commission of Government Forecasting and Accountability, SB Friedman

[1] B2B portion of sales for Software as a Service and Streaming Services (subsets of Computing/Streaming Services), Vehicle Services (except boat repair) and Storage of Tangible and Electronic Files are included.

Other Assumptions and Considerations

To develop an estimate of potential revenues to the RTA from imposing a new sales tax on an expanded set of services starting in year 2025, SB Friedman incorporated the following assumptions:

- **Growth Rates** – given that the most recent available data on service sales in the RTA region is only available from 2017, SB Friedman applied annual escalation rates to the estimated sales by service from 2018 onwards. Escalation rates for each service category were based on national service industry growth rates reported by the Service Annual Survey (2013-2021).
- **3-Year Compliance Period** – based on research previously presented to the Illinois General Assembly on implementation of new sales taxes on services, a conservative approach assumes a 67% compliance with a new tax in the first year in 2025, 75% compliance in the second year in 2026 and 90% compliance in the third year in 2027. Revenue projections for all scenarios are shown for 2026 at 75% compliance.
- **Tax Rate** – for the purposes of this scenario, SB Friedman assumed additional services would be taxed at the base GM sales tax rate retained by the State (5.00%), the portion of State sales tax distributed to local municipalities (1.00%), the portion of the State sales tax distributed to counties (0.25%, excluding Cook County) and the current RTA Sales Tax rate in Cook County and the Collar Counties (1.25% and 0.75%, respectively).
- **IDOR Surcharge** – the 1.5% loss factor to IDOR is assumed to apply to new sales tax collections on services.
- **Sales Loss Factor** – SB Friedman assumed overall sales of services will decline proportionate to the assumed new service sales tax.[ix] For example, where the 1.25% RTA Sales Tax rate is applied to a service not previously taxed (all services tested), the portion of sales made in compliance with the new tax (67%, 75%, or 90% depending on time from implementation) is reduced by 1.25%.
- **Adjustments to Software as a Service (SaaS) Sales** – SB Friedman manually adjusted sales for Software as a Service. The 2017 Economic Census data is likely outdated due to substantial changes in technologies over the past six years. As a result, SB Friedman assumed sales per capita for SaaS consistent with collections data reported for the City of Chicago's Personal Property Lease Transaction Tax in 2021.[x] The per capita ratio was used to derive sales for the RTA region and the State.

Revenue Projections by Option

Using the assumptions noted above, SB Friedman estimated revenues available to the RTA for three service tax Options: an Expansive Services Option, a Top Performers Option, and an Equity Option. A summary of the services included, the resulting revenues to the RTA, and policy considerations in each Option are noted below. Full revenue projections of all Options can be found in **Tables 3 and 4**.

Table 3: Sales Tax Collections to the State, County and Local Governments (2026)

	State Revenue from GM [1]	State Revenue from Services [1]	State Combined Revenue from GM & Services	Local + County Revenue from GM [2]	Local + County Revenue from Services [2][3]	Total Combined Local + County Revenue from GM & Services
Status Quo	**$11.0B**	**N/A**	**$11.0B**	**$2.5B**	**N/A**	**$2.5B**
Expansive Services Option	$11.0B	$1.9B	$12.9B	$2.5B	$429M	$3.0B
Top Performers Option	$11.0B	$1.2B	$12.2B	$2.5B	$262M	$2.8B
Equity Option	$11.0B	$1.1B	$12.1B	$2.5B	$239M	$2.8B

[1] 5% base State sales tax rate
[2] Assumes 1% local and 0.25% county (excluding Cook) distributive share of the Illinois sales tax rate
[3] See Appendix D for detail

Table 4: Sales Tax Collections to the RTA (2026)

	RTA Revenue from GM + QFD [1]	RTA Revenue from Services [2]	RTA Combined Revenue from GM+QFD & Services
Status Quo	**$1.7B**	**N/A**	**$1.7B**
Expansive Services Option	$1.7B	$315M	$2.1B
Top Performers Option	$1.7B	$224M	$2.0B
Equity Option	$1.7B	$212M	$2.0B

[1] All scenarios assume the existing sales tax rate retained by the RTA on GM in Cook (1.25%) and the Collar Counties (0.5%)
[2] The new RTA Sales Tax rate assumed on services is 1.25% in Cook County, 0.75% in the Collar Counties

Status Quo: Assuming no change in current rates or base, the RTA could expect approximately $1.7 billion in revenue from sales tax on GM and QFD and the State could expect to retain approximately $11.0 billion in revenue from sales tax on GM.

Expansive Services Option: The Expansive Services Option is estimated to result in $315 million in additional sales tax collections to the RTA in 2026. Beyond the RTA, SB Friedman estimates the services would result in an approximately $1.9 billion increase in Illinois sales tax collections, as well as $429 million increase in local and county revenues from State sales taxes by 2026.

Estimated revenues in the Expansive Services Option would fill approximately 43% of the anticipated RTA budget shortfall in 2026.

Top Performers Option: The three highest grossing service categories—Computing & Streaming Services, Business and Financial Services, and Vehicle Service—are estimated to account for approximately 63% of statewide service sales, or an estimated $32 billion in 2026. In the Top Performers Option, the RTA is estimated to receive an additional $224 million in revenue in 2026, filling 31% of the RTA shortfall. In the same year, SB Friedman estimates the State would generate approximately $1.2 billion in additional tax collections, with local and county governments generating an additional $262 million in revenues from State sales tax collections.

Equity Option: Total statewide sales across the selected services are expected to total $30 billion in 2026. It is projected that the Equity Option would generate $212 million, or 29% of the estimated RTA funding gap, in additional revenue for the RTA, $1.1 billion for the State, and $239 million for local and county governments in 2026.

Each option is not without challenges and trade-offs. While a tax on services comparable to Iowa has the potential to produce substantial revenues in the Expansive Services Option, it would require widespread compliance which would likely take longer than the 3 year compliance period used for modeling. Implementing an option with a narrower scope of service categories, such as the Top Performers Option or Equity Option, would also require the task of selecting service categories, an administrative and political process that would ultimately result in less revenues than an Expansive Services Option. Additionally, imposing a new tax on services at any level has the possibility of resulting in adverse impact to consumers and businesses in the RTA region and across Illinois.

HYBRID SCENARIOS

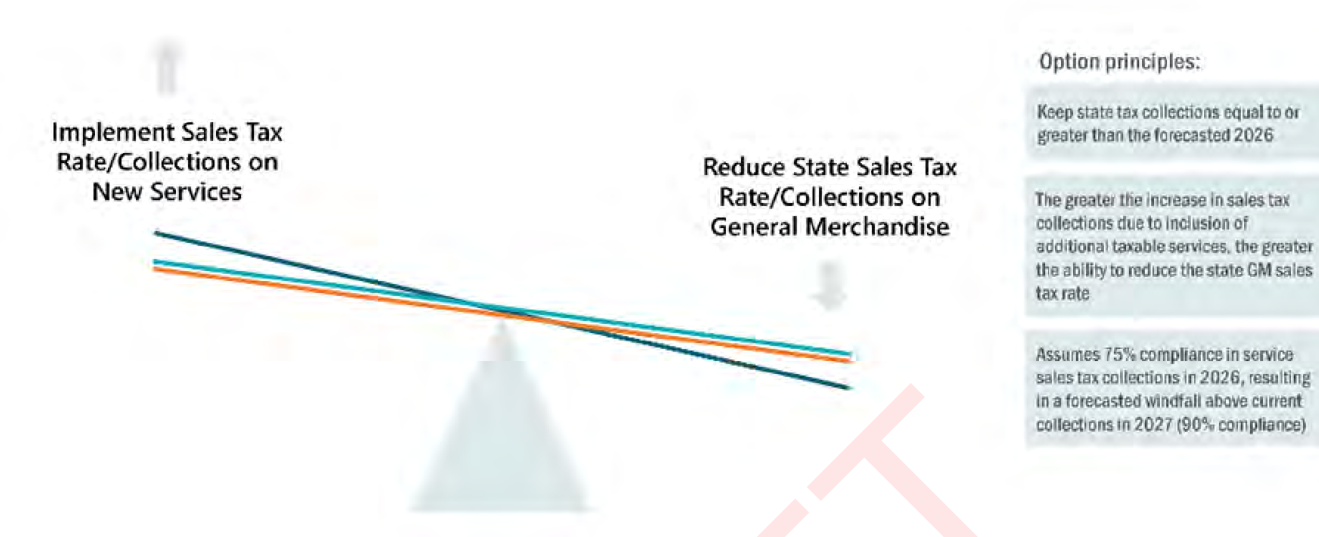
While introducing a new sales tax on services in Illinois would significantly benefit the RTA and address part of the impending gap, there are possible drawbacks to imposing an additional tax. Municipalities throughout the Chicagoland region are already high-tax environments with composite sales tax rates ranking among the highest compared to peer cities. As shown above, a scenario in which previously untaxed services are added to the tax base at current rates would generate nearly $2 billion in new revenue for the State in addition to contributing to new operating funds to fill the RTA's funding gap. However, introducing such a substantial tax increase could have negative impacts on consumers and the region's economic competitiveness. One plausible method to mitigate these negative impacts is a concurrent reduction in the State sales tax rate on GM to facilitate a broader tax base while minimizing additional tax burden. This methodology relies on the broadened sales tax base described in the Broaden the Base Options above, which would result in substantial new revenues to the State and the RTA assuming the current composite sales tax rates (identified in **Figures 1** and **2**) remain constant. With a broadened sales tax base, the State and RTA may be able to calibrate adjusted sales tax rates under each of the Broaden the Base Options, which maintain anticipated future State revenues while mitigating the negative effects of a high tax burden on goods for consumers.

To test alternatives to the Broaden the Base Scenario above, SB Friedman modeled two additional scenarios which expand the sales tax base while also lowering the State sales tax rate on GM, as discussed above:

A. Broaden the Base and Reduce the State Sales Tax Rate (Hybrid Scenario A), and
B. Broaden the Base, Reduce the State Sales Tax Rate and Increase RTA Rate (Hybrid Scenario B).

The Hybrid Scenarios provide an opportunity to increase sales tax revenues through a broadened base while also relieving consumer tax burden through a decreased sales tax rate on consumer goods (see **Figure 10** for details). The resulting composite sales tax rate would be lower than the current rate, while generating new revenues to the RTA and other taxing jurisdictions. State sales tax rate reductions in SB Friedman's Hybrid Scenarios are calibrated to maintain State sales tax revenue in 2026 assuming a 75% compliance for the new tax. Additional revenues for the RTA, State, county and local governments are expected in 2027 if compliance reaches the assumed 90% level (see **Appendix E** for 2027 projections).

Figure 10: Hybrid Scenario Principles



Source: SB Friedman

Hybrid Scenario A: Broaden the Base and Reduce the State Rate

Given that a new service tax would generate new revenue for the state, a 0.50-0.75% reduction in the State sales tax rate could be accommodated, while keeping the State whole. In this scenario, State revenue from GM decreases from the status quo value of $11.0 million, but all three Service Options result in over $1.0 billion in new revenue to the State from services. Additional revenue to the RTA is estimated at $317 million, $225 million, or $213 million for the Expansive Services, Top Earners, and Equity Options, respectively. A summary of Hybrid Scenario A can be found in **Figure 11** on the next page, and corresponding revenues to the State of Illinois, RTA, and county and local governments are included in **Table 5** and **Table 6**.

Hybrid Scenario B: Broaden the Base, Reduce the State Rate, Increase the RTA Sales Tax Rate

Similar to Hybrid Scenario A, the State sales tax rate is reduced by 0.50%-0.75% depending on the Service Option. However, in Scenario B, additional revenue is expected for the RTA due to an assumed RTA Sales Tax rate increase of 0.25% for both Cook and the Collar Counties. Hybrid Scenario B maximizes the additional revenue to the RTA while also modernizing the sales tax code through an expanded base. In Hybrid Scenario B, the RTA may expect as much as $390 million in new revenues from broadening the base and $470 million from raising the RTA Sales Tax rate, totaling approximately $861 million in new revenues depending on the Service Option selected. Assumptions for Hybrid Option B are included in **Figure 12** on page 20. Projected revenues and new effective rates are included in **Tables 7 and 8.**

Figure 11: Hybrid Scenario A Assumptions

CHANGES TO SALES TAXES

No Change to RTA Rate	RTA sales tax rate remains the same
Broaden the Base	Extend sales tax rates to services for State, RTA and local distributive share
Reduce Sales Tax Rate	Lower state base sales tax rate to offset new service tax

Source: SB Friedman

Table 5: Sales Tax Collections to the State, County and Local Governments in Hybrid Scenario A (2026)

	State GM and Service Rate	State Revenue from GM	State Revenue from Services	State Combined Revenue from GM & Services	Local + County Revenue from GM [1]	Local + County Revenue from Services [1][2]	Total Combined Local + County Revenue from GM & Services
Status Quo	**5.00%**	**$11.0B**	**N/A**	**$11.0B**	**$2.5B**	**N/A**	**$2.5M**
Expansive Services Option	4.25%	$9.3B	$1.6B	$11.0B	$2.5B	$431M	$3.0B
Top Performers Option	4.50%	$9.9B	$1.1B	$11.0B	$2.5B	$263M	$2.8B
Equity Option	4.50%	$9.9B	$1.0B	$10.9B	$2.5B	$240M	$2.8B

[1] Assumes 1% local and 0.25% county (excluding Cook) distributive share of State sales tax rate
[2] See Appendix D for detail

Table 6: Sales Tax Collections to the RTA in a Hybrid Scenario A (2026)

	RTA Revenue from GM + QFD [1]	RTA Revenue from Services [2]	RTA Combined Revenue from GM+QFD & Services
Status Quo	**$1.7B**	**N/A**	**$1.7B**
Expansive Services Option	$1.7B	$317M	$2.1B
Top Performers Option	$1.7B	$225M	$2.0B
Equity Option	$1.7B	$213M	$2.0B

[1] All options retain the existing RTA Sales Tax rate on GM in Cook (1.25%) and the Collar Counties (0.5%)
[2] The new RTA tax rate assumed on services is 1.25% in Cook County, 0.75% in the Collar Counties

Figure 12. Hybrid Option B Assumptions

CHANGES TO SALES TAXES

Increase RTA Rate	Increase the RTA sales tax rate by 0.25%
Broaden the Base	Extend sales tax rates to services for State, RTA and local distributive share
Reduce Sales Tax Rate	Lower state base sales tax rate to offset new service tax

Source: SB Friedman

Table 7: Sales Tax Collections to the State, County and Local Governments in Hybrid Scenario B (2026)

	State GM and Service Rate	State Revenue from GM	State Revenue from Services	State Combined Revenue from GM & Services	Local + County Revenue from GM [1]	Local + County Revenue from Services [1][2]	Total Combined Local + County Revenue from GM & Services
Status Quo	**5.00%**	**$11.0B**	**N/A**	**$11.0B**	**$2.5B**	**N/A**	**$2.5M**
Expansive Services Option	4.25%	$9.3B	$1.6B	$11.0B	$2.5B	$431M	$3.0B
Top Performers Option	4.5%	$9.9B	$1.1B	$11.0B	$2.5B	$260M	$2.8B
Equity Option	4.5%	$9.9B	$1.0B	$10.9B	$2.5B	$240M	$2.8B

[1] Assumes 1% local and 0.25% county (excluding Cook) distributive share of State sales tax rate
[2] See Appendix D for detail

Table 8: Sales Tax Collections to the RTA in a Hybrid Option B (2026)

	Cook County [1]		Collar Counties [2]				
	RTA GM + QFD Rate	RTA Services Rate	RTA GM + QFD Rate	RTA Services Rate	RTA Revenue from GM + QFD	RTA Revenue from Services	RTA Combined Revenue from GM+QFD & Services
Status Quo	**1.25%**	**0%**	**0.5%**	**0%**	**$1.7B**	**N/A**	**$1.7B**
Expansive Services Option	1.5%	1.5%	0.75%	1.0%	$2.2B	$390M	$2.6B
Top Performers Option	1.5%	1.5%	0.75%	1.0%	$2.2B	$275M	$2.5B
Equity Option	1.5%	1.5%	0.75%	1.0%	$2.2B	$261M	$2.5B

[1] The effective RTA rate for GM+ QFD and Services in Cook County includes the full Cook County RTA rate and 0.25% distribution from State that is directed to County in all counties other than Cook.
[2] The effective RTA rate for GM+QFD in Collar Counties excludes 0.25% that is directed to County Transportation Funds. The effective RTA rate for Services in Collar Counties includes the fully-loaded Collar County RTA rate.

Conclusions

Due to changes in ridership behavior and corresponding declines in farebox revenues, the RTA has a pressing need to identify substantial and sustainable near-term funding solutions to achieve the level of service envisioned through the PART process. Sales taxes have always been a significant funding mechanism for the RTA and will likely continue to be important over the next decade. SB Friedman tested four tax policy scenarios and their revenue implications for the looming RTA funding gap. The results of all four scenario tests are summarized in **Table 9** and discussed below.

Table 9: Summary of Additional RTA Revenues for All Scenarios and Options

	RAISE RTA RATE	BROADEN THE BASE	HYBRID SCENARIO A BROADEN THE BASE & LOWER STATE RATE	HYBRID SCENARIO B BROADEN THE BASE, LOWER STATE RATE & RAISE RTA RATE
GM+QFD RTA Rate Increase	+0.25% Cook +0.25% Collar			+0.25% Cook +0.25% Collar
Services RTA Rate Increase		+1.25% Cook +0.75% Collar	+1.25% Cook +0.75% Collar	+1.50% Cook +1.00% Collar
ADDITIONAL REVENUES TO RTA	+$471 MILLION			
OPTIONS: Expansive Services		+$315 MILLION	+$317 MILLION	+$861 MILLION
OPTIONS: Top Performers		+$224 MILLION	+$225 MILLION	+$746 MILLION
OPTIONS: Equity		+$212 MILLION	+$213 MILLION	+$733 MILLION

Source: SB Friedman

The revenue projections and key highlights associated with each scenario are summarized below:

1. **Raising the Rate Scenario** – a scenario in which the RTA Sales Tax rate is universally increased by 0.25% across the RTA region. This scenario would result in approximately $470 million in additional annual revenues to the RTA in 2026. While a simple sales tax rate increase has historical precedent to cover RTA budget shortfalls, and is relatively simple to implement, the current high-tax environment counsels against this option. The regressive nature of sales taxes, and their tendency to disproportionately impact lower-income households is another reason to avoid a simple rate raise. As a stopgap measure, the General Assembly could impose a temporary RTA Sales Tax increase while other, more complex, funding mechanisms are explored and implemented.

2. **Broaden the Base Scenario –** a scenario in which the current Illinois sales tax rates are applied to a range of services currently excluded from the Illinois sales tax base. Broadening the sales tax base to include the broadest subset of additional services is estimated to generate an additional $457 million in RTA Sales Tax collections in 2026. Statewide, the broadening of the sales tax base to include services at the 5% Illinois sales tax rate would result in up to $2.8 billion in new sales tax revenues. Imposing sales taxes on services is widely considered to be a more sustainable and equitable funding approach as services are less sensitive to economic downturns and a tax on services reduces distortionary effects of consumer preferences on goods or services. Implementing a sales tax on services can result in substantial revenues to the RTA, the State of Illinois, and local governments; however, it would likely require more careful calibration of the regulatory structure and justification for collecting a new revenue stream by the State.

3. **Hybrid A: Broaden the Base, Reduce the Rate Scenario** – a scenario that assumes RTA and Illinois impose a sales tax on services while simultaneously reducing the Illinois sales tax rate for GM. The revenues realized from a broader sales tax base would allow the State to remain financially whole or benefit from increased revenues while reducing the sales tax rate paid by taxpayers. Were Illinois to tax services, the State could reduce its sales tax rate on GM by 0.5% to 0.75%, depending on the services selected, and maintain or exceed anticipated tax receipts. This scenario could also result in $213 million to $317 million in additional revenues to the RTA by 2026, depending on the Service Option. Additionally, at 90% compliance by 2027, the State may generate between $133 million and $373 million in new sales tax revenues.

4. **Hybrid B: Broaden the Base, Reduce the State Rate, and Increase the RTA Rate Scenario** – a scenario that assumes RTA and Illinois impose a new sales tax on services, reduce the Illinois sales tax rate for GM, and increase the RTA Sales Tax rate by 0.25% in Cook and the Collar Counties. A lower composite sales tax rate would allow more flexibility to raise the RTA Sales Tax rate, while allowing the State to remain whole and mitigate negative impacts to consumers and business. If the RTA Sales Tax rate were to be increased by 0.25% in this scenario, composite sales tax rates would still be lower than the current rate, and the RTA could expect additional revenues between $730 million and $860 million by 2026 depending on the Service Option selected. Additionally, it is anticipated that compliance in collections of a newly introduced tax would reach 90% by 2027, resulting in additional sales tax revenue to the State between $131 million and $370 million.

Each of the four identified scenarios have merits and drawbacks and must be considered within the broader context of the overall budget shortfall of the RTA and other jurisdictions. Alternative revenue sources identified through the PART process may also impact specific timing needs of implementing an updated sales tax system. These policy considerations include:

Selection of Services: Three different service group options were tested by SB Friedman to estimate the potential new revenues from broadening the base to an expansive or narrow set of new services. The matter of which services to apply a sales tax to is ultimately a policy decision to be determined by the State. However, each option has trade-offs: for example, taxing an expansive set of services provides the highest amount of new revenue but would also require additional policy to prevent negative impacts to consumers and businesses (e.g., tax relief for small business). Intentionally selecting the services taxed could minimize the impact on small businesses and lower-income consumers, but would reduce the amount of new revenue to be used for transit funding or other policy goals.

Exclusion of Business-to-Business Services: The case for excluding B2B sales—well documented in taxation best practice literature—is that taxing business inputs will result in tax pyramiding, thereby increasing the cost to consumer by more than the tax rate increase itself. Not all business-to-business sales should be exempt without consideration by lawmakers. For example, in the case of "software as a service" (SaaS), new business practices such as software subscriptions have replaced the sales of software as goods (software purchase or downloaded) that were previously taxed. Therefore, it is justifiable to modernize taxation methods to keep pace with changing business models and technology.

Calibration of Tax Rate: While broadening the base to include services is a viable approach to solving a significant portion of the transit funding shortfall, it also generates new revenues for the State, municipalities and counties beyond the direct transit need. These new revenues provide opportunities to solve other funding challenges beyond transit. The new revenues will require clear justification and careful calibration of tax rates to ensure that the overall tax burden for consumers and businesses in Illinois is not unduly increased.

Limitations of Our Engagement

Our report is based on estimates, assumptions and other information developed from research of local government fiscal policies, knowledge of the industry, and meetings during which we obtained certain information. The sources of information and bases of the estimates and assumptions are stated in the report. While sources used are ones which we deem reliable, no guarantee can be made as to their accuracy. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will vary from those described in our report, and the variations may be material.

The terms of this engagement are such that we have no obligation to revise the report to reflect events or conditions that occur subsequent to the date of the report. These may include changes in local fiscal policy or other factors.

Our report is intended for your information and for submission to local governmental entities reviewing the project and should not be relied upon for any other purposes. Otherwise, neither the report nor its contents, nor any reference to our Firm, may be included or quoted in any offering circular or registration statement, appraisal, sales brochure, prospectus, loan, or other agreement or document without our prior written consent.

Appendix A

SERVICES TAXED IN PEER STATES (2017)

SERVICES [1]	IL	CA	IN	IA	KY	MA*	MN	MO	NY	TX	WI
Agricultural	0	0	1	2	0	0	2	0	3	2	3
Industrial and Mining	0	1	0	0	0	0	1	0	0	2	1
Construction	0	0	0	3	0	0	0	0	0	3	0
Utilities	12	2	12	10	11	9	15	8	5	12	11
Transportation	0	0	0	1	0	0	0	1	3	1	2
Storage	0	0	1	3	0	0	0	0	4	2	1
F.I.R.E	0	0	0	2	0	0	0	0	2	2	0
Personal	2	2	4	15	2	1	8	1	5	10	10
Business	1	7	3	17	4	4	11	2	13	14	8
Computer	1	1	1	0	1	0	0	1	1	8	3
Computer Online	1	0	5	1	6	1	6	0	1	8	7
Automotive	1	1	0	5	0	0	4	0	5	1	5
Admissions and Amusements	9	1	3	13	8	1	12	10	6	12	14
Professional	0	0	0	0	0	0	0	0	0	1	0
Leases	1	2	2	3	1	1	2	1	2	1	3
Fabrication, Repair, and Installation	1	3	1	13	4	2	6	0	14	10	13
Miscellaneous	0	1	3	1	3	0	0	0	0	1	1
Total	**29**	**21**	**36**	**89**	**40**	**19**	**67**	**24**	**64**	**90**	**82**

Source: Federation of Tax Administrators 2017 Survey of Services Taxation
[1] Counts include some services that are only taxed locally
*State did not respond to new survey, 2007 data reported

Appendix B

TAXABLE SERVICES BY SCENARIO

SERVICES GROUP	TAXABLE SERVICES	EXPANDED SERVICES	TOP EARNERS	EQUITY MODEL
Computing/Streaming Services	Pay television, including but not limited to streaming video, video on-demand, and pay-per-view	x	x	x
	Services arising from or related to installing, maintaining, servicing, repairing, operating, upgrading, or enhancing specified digital products	x	x	x
	Software as a service	x	x	x
Consumer Goods Repair Services	Camera repair	x		
	Electrical and electronic repair and installation	x		
	Furniture repair and cleaning	x		x
	Household appliance, television, and radio repair	x		
	Jewelry and watch repair	x		x
	Machine repair of all kinds	x		
	Office and business machine repair	x		x
	Shoe repair and shoeshine	x		x
Maintenance & Repair Services	Carpentry repair and installation	x		
	Farm implement repair of all kinds	x		
	Janitorial and building maintenance or cleaning (non-residential only)	x		
	Landscaping, lawn care, and tree trimming and removal	x		x
	Painting, papering, and interior decorating	x		
Other Services	Extermination services	x		
	Garbage collection and disposal, nonresidential commercial only	x		
	House and building moving	x		
	Sign construction and installation	x		
	Photography	x		
	Pet grooming	x		x
	Sewage services, nonresidential commercial only	x		
Personal Services	Barber and beauty services	x		x
	Dating services	x		x
	Massages, unless performed by a licensed massage therapist	x		x
	Reflexology	x		x
	Tanning beds or tanning salons	x		x
Businesses and Financial Services	Employment and executive search agencies	x	x	x
	Investment counseling	x	x	x
	Security and detective services	x	x	x
Recreational Services	Campgrounds	x		x
	Dance school and dance studio	x		x
	Golf and country clubs and all commercial recreation fees, dues, and charges	x		x
	Swimming pool cleaning and maintenance	x		x
Storage Services	Fur storage and repair	x		x
	Mini-storage	x		x
	Storage of tangible or electronic files, documents, or other records	x		x
	Storage warehouse or lockers of raw agricultural products	x		
Textile Services & Repair	Alteration and garment repair	x		
	Carpet, rug, and upholstery cleaning and repair	x		x
	Dry cleaning, pressing, dyeing, and laundering excluding the use of self-pay washers and dryers	x		x
Vehicle Services	Aircraft lease or rental, 60 days or less	x	x	x
	Armored car services	x	x	x
	Battery, tire, and allied services	x	x	
	Boat repair	x	x	x
	Motor vehicle, recreational vehicle, and recreational boat rental (when rented without a driver or operator)	x	x	x
	Motorcycle, scooter, and bicycle repair	x	x	
	Oilers and lubricators on vehicles and machines	x	x	
	Parking facilities	x	x	
	Personal transportation service	x	x	x
	Vehicle repair	x	x	
	Vehicle wash and wax	x	x	
	Wrecker and towing	x	x	

Appendix C

BUSINESS TO BUSINESS ADJUSTMENT FACTORS AND OVERRIDES

SERVICES GROUP	SERVICE NAME	FINAL USER RATE [1]	SOURCE	RECOMMENDED OVERRIDE [2]	SBF FINAL USER RATE	REASON FOR OVERRIDE
Computing/Streaming Services	Pay television, including but not limited to streaming video, video on-demand, and pay-per-view	0.584	CGFA	x	1	Opportunity to tax an emergent, high-growth sector
	Services arising from or related to installing, maintaining, servicing, repairing, operating, upgrading, or enhancing specified digital products	0.59	BEA		0.59	
	Software as a service	0.73	BEA	x	1	Software as a Service is a new technology that is replacing formerly taxed goods (e.g., software purchased on CD)
Consumer Goods Repair Services	Camera repair	0.65	BEA		0.65	
	Electrical and electronic repair and installation	0.577	CGFA		0.577	
	Furniture repair and cleaning	0.715	CGFA		0.715	
	Household appliance, television, and radio repair	0.715	CGFA		0.715	
	Jewelry and watch repair	0.715	CGFA		0.715	
	Machine repair of all kinds	0.715	CGFA		0.715	
	Office and business machine repair	0	SBF		0	
	Shoe repair and shoeshine	1	SBF		1	
Maintenance & Repair Services	Carpentry repair and installation	0.577	CGFA		0.577	
	Farm implement repair of all kinds	0.65	BEA		0.65	
	Janitorial and building maintenance or cleaning (non-residential only)	0.074	CGFA		0.074	
	Landscaping, lawn care, and tree trimming and removal	0.65	BEA		0.65	
	Painting, papering, and interior decorating	0.577	CGFA		0.577	
Other Services	Extermination services	0.715	CGFA		0.715	
	Garbage collection and disposal, nonresidential commercial only	0.164	CGFA		0.164	
	House and building moving	0.65	BEA		0.65	
	Sign construction and installation	0.255	CGFA		0.255	
	Photography	0.555	CGFA		0.555	
	Pet grooming	0.715	CGFA		0.715	
	Sewage services, nonresidential commercial only	0	SBF		0	

Personal Services	Barber and beauty services	0.95	SBF		0.95	
	Dating services	1	SBF		1	
	Massages, unless performed by a licensed massage therapist	0.999	CGFA		0.999	
	Reflexology	0.95	SBF		0.95	
	Tanning beds or tanning salons	0.95	SBF		0.95	
Businesses and Financial Services	Employment and executive search agencies	0.074	CGFA		0.074	
	Investment counseling	0.5	BEA		0.5	
	Security and detective services	0.074	CGFA		0.074	
Recreational Services	Campgrounds	0.714	CGFA		0.714	
	Dance school and dance studio	0.915	CGFA		0.915	
	Golf and country clubs and all commercial recreation fees, dues, and charges	0.92	CGFA		0.92	
	Swimming pool cleaning and maintenance	0.715	CGFA		0.715	
Storage Services	Fur storage and repair	0.65	BEA		0.65	
	Mini-storage	0.75	CGFA		0.75	
	Storage of tangible or electronic files, documents, or other records	0.31	BEA	x	1	Opportunity to tax an emergent, high-growth sector
	Storage warehouse or lockers of raw agricultural products	0.05	CGFA		0.05	
Textile Services & Repair	Alteration and garment repair	0.715	CGFA		0.715	
	Carpet, rug, and upholstery cleaning and repair	0.074	CGFA		0.074	
	Dry cleaning, pressing, dyeing, and laundering excluding the use of self-pay washers and dryers	0.715	CGFA		0.715	
Vehicle Services	Aircraft lease or rental, 60 days or less	0.594	CGFA		0.594	
	Armored car services	0	SBF		0	
	Battery, tire, and allied services	0.469	CGFA	x	1	Both businesses and consumers generate auto traffic on road system
	Boat repair	0.538	CGFA		0.538	
	Motor vehicle, recreational vehicle, and recreational boat rental (when rented without a driver or operator)	0.92	CGFA	x	1	Both businesses and consumers generate auto traffic on road system
	Motorcycle, scooter, and bicycle repair	0.95	SBF	x	1	
	Oilers and lubricators on vehicles and machines	0.715	CGFA	x	1	
	Parking facilities	0.715	CGFA	x	1	
	Personal transportation service	0.58	BEA	x	1	
	Vehicle repair	0.715	CGFA	x	1	
	Vehicle wash and wax	0.715	CGFA	x	1	
	Wrecker and towing	0.469	CGFA	x	1	

[1] Percent of total sales made to final user (consumer).

[2] SB Friedman recommends taxing all sales in categories selected for override. Rationale for override stated in last column.

Appendix D

LOCAL AND COUNTY DISTRIBUTIVE SHARE DETAIL (2026)

Sales Tax Collections from Services to the Counties and Local Municipalities – Broaden Base Only (2026)

	County Distributive Share [1]		Municipal Distributive Share [2]	
	RTA Region	Outside RTA Region	RTA Region	Outside RTA Region
Status Quo	N/A	N/A	N/A	N/A
Expansive Services Option	$25.6M	$22.1M	$293M	$88.2M
Top Performers Option	$14.3M	$9.2M	$202M	$36.9M
Equity Option	$14.9M	$6.1M	$193M	$24.6M

[1] Assumes 0.25% county (excluding Cook) distributive share of state sales tax rate
[2] Assumes 1% local distributive share of states sales tax rate

Sales Tax Collections from Services to the Counties and Local Municipalities – Broaden Base and Lower State Rate (2026)

		County Distributive Share [1]		Municipal Distributive Share [2]	
	State GM and Service Rate	RTA Region	Outside RTA Region	RTA Region	Outside RTA Region
Status Quo	5.00%	N/A	N/A	N/A	N/A
Expansive Services Option	4.25%	$25.8M	$22.2M	$293M	$88.7M
Top Performers Option	4.50%	$14.3M	$9.3M	$203M	$37.0M
Equity Option	4.50%	$15.0M	$6.2M	$194M	$24.7M

[1] Assumes 0.25% county (excluding Cook) distributive share of state sales tax rate
[2] Assumes 1% local distributive share of states sales tax rate

Sales Tax Collections from Services to the Counties and Local Municipalities – Broaden Base, Lower State Rate, and Raise RTA Rate (2026)

		County Distributive Share [1]		Municipal Distributive Share [2]	
	State GM and Service Rate	RTA Region	Outside RTA Region	RTA Region	Outside RTA Region
Status Quo	5.00%	N/A	N/A	N/A	N/A
Expansive Services Option	4.25%	$25.7M	$22.2M	$294M	$88.7M
Top Performers Option	4.50%	$14.3M	$9.3M	$202M	$37.0M
Equity Option	4.50%	$14.9M	$6.2M	$194M	$24.7M

[1] Assumes 0.25% county (excluding Cook) distributive share of state sales tax rate
[2] Assumes 1% local distributive share of states sales tax rate

Appendix E

REVENUES IN 2027 ASSUMING 90% COMPLIANCE

Broaden the Base Scenario: Sales Tax Collections to the State, Counties and Local Governments (2027)

	State Revenue from GM [1]	State Revenue from Services [1]	State Combined Revenue from GM & Services	Local + County Revenue from GM [2]	Local + County Revenue from Services [2]	Total Combined Local + County Revenue from GM & Services
Status Quo	**$11.3B**	**N/A**	**$11.3B**	**$2.6B**	**N/A**	**$2.6B**
Expansive Services Option	$11.3B	$2.4B	$13.7B	$2.6B	$542M	$3.1B
Top Performers Option	$11.3B	$1.5B	$12.7B	$2.6B	$330M	$2.9B
Equity Option	$11.3B	$1.4B	$12.7B	$2.6B	$305M	$2.9B

[1] Assumes 5% base state sales tax rate
[2] Assumes 1% local and 0.25% county (excluding Cook) distributive share of states sales tax rate

Broaden the Base Scenario: Sales Tax Collections to the RTA (2027)

	RTA Revenue from GM + QFD [1]	RTA Revenue from Services [2]	RTA Combined Revenue from GM + QFD & Services
Status Quo	**$1.8B**	**N/A**	**$1.8B**
Expansive Services Option	$1.8B	$399M	$2.2B
Top Performers Option	$1.8B	$283M	$2.1B
Equity Option	$1.8B	$271M	$2.1B

[1] All options retain the existing RTA sales tax rate on General Merchandise in Cook (1.25%) and the Collar Counties (0.5%)
[2] The new RTA tax rate assumed on services is 1.25% in Cook County, 0.75% in the Collar Counties

Hybrid Scenario A: Sales Tax Collections to the State, County and Local Governments in a Hybrid Scenario (2027)

	State GM and Service Rate	State Revenue from GM	State Revenue from Services	State Combined Revenue from GM & Services	Local + County Revenue from GM [1]	Local + County Revenue from Services [1]	Total Combined Local + County Revenue from GM & Services
Status Quo	**5.00%**	**$11.3B**	**N/A**	**$11.3B**	**$2.6B**	**N/A**	**$2.6B**
Expansive Services Option	4.25%	$9.6B	$2.1B	$11.6B	$2.6B	$546M	$3.1B
Top Performers Option	4.50%	$10.1B	$1.4B	$11.5B	$2.6B	$332M	$2.9B
Equity Option	4.50%	$10.1B	$1.3B	$11.4B	$2.6B	$307M	$2.9B

[1] Assumes 1% local and 0.25% county (excluding Cook) distributive share of states sales tax rate

Hybrid A: Sales Tax Collections to the RTA (2027)

	RTA Revenue from GM + QFD [1]	RTA Revenue from Services [2]	RTA Combined Revenue from GM + QFD & Services
Status Quo	**$1.8B**	**N/A**	**$1.8B**
Top Performers Option	$1.8B	$402M	$2.2B
Top Performers Option	$1.8B	$284M	$2.1B
Equity Option	$1.8B	$272M	$2.1B

[1] All options retain the existing RTA sales tax rate on General Merchandise in Cook (1.25%) and the Collar Counties (0.5%)
[2] The new RTA tax rate assumed on services is 1.25% in Cook County, 0.75% in the Collar Counties

Hybrid B: Sales Tax Collections to the State, County and Local Governments in a Hybrid Scenario (2027)

	State GM and Service Rate	State Revenue from GM	State Revenue from Services	State Combined Revenue from GM & Services	Local + County Revenue from GM [1]	Local + County Revenue from Services [1]	Total Combined Local + County Revenue from GM & Services
Status Quo	**5.00%**	**$11.3B**	**N/A**	**$11.3B**	**$2.6B**	**N/A**	**$2.6B**
Expansive Services Option	4.25%	$9.6B	$2.1B	$11.6B	$2.6B	$545M	$3.1B
Top Performers Option	4.50%	$10.1B	$1.4B	$11.5B	$2.6B	$332M	$2.9B
Equity Option	4.50%	$10.1B	$1.3B	$11.4B	$2.6B	$307M	$2.9B

[1] Assumes 1% local and 0.25% county (excluding Cook) distributive share of states sales tax rate

Hybrid B: Sales Tax Collections to the RTA (2027)

	Cook County [1]		Collar Counties [2]				
	RTA GM+QFD Rate	RTA Services Rate	RTA GM+QFD Rate	RTA Services Rate	RTA Revenue from GM + QFD	RTA Revenue from Services	RTA Combined Revenue from GM + QFD & Services
Status Quo	**1.25%**	**0%**	**0.50%**	**0%**	**$1.8B**	**N/A**	**$1.8B**
Expansive Services Option	1.50%	1.50%	0.75%	1.00%	$2.3B	$494M	$2.8B
Top Performers Option	1.50%	1.50%	0.75%	1.00%	$2.3B	$348M	$2.6B
Equity Option	1.50%	1.50%	0.75%	1.00%	$2.3B	$333M	$2.6B

[1] The effective RTA rate for GM+ QFD and Services in Cook County includes the full Cook County RTA rate and 0.25% distribution from State that is directed to County in all counties other than Cook.
[2] The effective RTA rate for GM+QFD in Collar Counties excludes 0.25% that is directed to County Transportation Funds. The effective RTA rate for Services in Collar Counties includes the fully-loaded Collar County RTA rate.

Footnotes

[i] Federation of Tax Administrators. 2017. 2017 Services Taxation Survey Summary Table.
[ii] Mazerov, M. 2009. Expanding Sales Taxation of Services: Options and Issues. *Center on Budget and Policy Priorities*.
[iii] Federation of Tax Administrators. 2017. 2017 Services Taxation Survey Summary Table.
[iv] Hendrix, M. Zodrow, G. 2003. Sales Taxation on Services: An Economic Perspective. *Florida State University Law Review vol. 30 issue 3*.
[v] Mazerov, M. 2009. Expanding Sales Taxation of Services: Options and Issues. *Center on Budget and Policy Priorities*.
[vi] Mazerov, M. 2012. Using Economic Census Data to Estimate the Revenue Impact of Taxing Services. *Center on Budget and Policy Priorities*.
[vii] Baker, S, et. Al. 2018. Shopping for Lower Sales Tax Rate. *National Bureau of Economic Research*.
[viii] Commission on Government Forecasting & Accountability, Illinois General Assembly. 2017. Service Taxes 2017 Update.
[ix] Mazerov, M. 2012. Using Economic Census Data to Estimate the Revenue Impact of Taxing Services. *Center on Budget and Policy Priorities*.
[x] Bologna, M. 2021. Chicago on a Revenue Roll From Cloud and Netflix Taxes. *Bloomberg News*.