

SYCAMORE CITY COUNCIL
AGENDA
April 7, 2003

City Council Workshop Meeting

NO MEETING IS SCHEDULED.

Regular City Council Meeting
7:30 P.M.

1. **CALL TO ORDER**
2. **INVOCATION**
3. **PLEDGE OF ALLEGIANCE**
4. **APPROVAL OF AGENDA**
5. **SWEARING-IN OF NEWLY ELECTED OFFICIALS**
6. **AUDIENCE TO VISITORS**
7. **CONSENT AGENDA**
 - A. Approval of the Minutes of the Regular City Council Meeting of March 17, 2003;
 - B. Approval of the Minutes of Closed Session Meetings of the City Council for October 21, 2002; November 18, 2002; December 2, 2002; and January 20, 2003;
 - C. Zoning Board of Appeals Minutes for the Meeting of January 28, 2003;
 - D. Payment of the Bills for April 7, 2003.
8. **PRESENTATION OF PETITIONS, COMMUNICATIONS, AND BILLS.**
 - A. Recognition of the City of Sycamore's Water Department by the Illinois Department of Public Health for a high degree of compliance with the state's fluoridation regulations.
 - B. Proclamation Declaring the Results of the April 1, 2003 Referendum to Adopt the Managerial Form of Government and to Retain the Election of Aldermen by Wards.
9. **REPORTS OF OFFICERS**
10. **REPORTS OF STANDING COMMITTEES**

11. PUBLIC HEARINGS

A. Public Hearing on the FY2003-2004 City Budget.

The fiscal year 2003-2004 City Budget is offered for public review and comment. It has been on review at the Sycamore Public Library since March 12 and in the City Clerk's Office. The City's Finance Committee reviewed the proposed budget on Monday, March 24.

Spending within the FY2004 Budget totals \$22,163,990, inclusive of all City funds. The General Fund expenditure budget totals \$8,284,096. These expenditures are offset by \$8,299,001 in anticipated General Fund revenues. The estimated General Fund operating reserve or starting fund balance will total \$2,760,496 or 33% percent of the planned General Fund expenditures for FY2004.

Pursuant to City Council action on February 17, 2003 a new five percent (5%) telecommunication tax will be imposed after July 1, 2003. This tax applies to local and long-distance calls, either land-based or wireless, and is charged against the caller's billing address. The City Council approved the new excise tax to widen the sources of recurring revenue in support of general operations. It is expected that the new tax will generate \$250,000 in the ten months extending from July 1, 2003 through April 30, 2004. Effective May 1, a number of development-related fees will increase to likewise shore up general revenues. Such increases will help to maintain existing service levels that have been stretched by the city's widening geographical area and more extensive infrastructure. Building and engineering plan review fees, building permit fees, electrical inspection fees, and land annexation fees are among the income categories affected by recent Council action.

With respect to personnel, the proposed General Fund expenditures includes no new hires. However, two staffing adjustments will be necessary to maintain current service levels. First, the departure of a probationary police officer for military duty in February, 2003 reduced the number of sworn patrol officers from twelve to eleven. The officer may return in a year's time or may not, but the City is obligated to hold a place for him for five years. The Police department's strategic plan, presented to the City Council on January 20, 2003, noted that the present authorized three-person shift dates back to the 1970s and that nearly 61% of the time there are only two officers on shift owing to vacations, sick leave, or other benefit time off. The City comprises about three more square miles than it did in the 1970s and our residents have higher expectations of the department in terms of community services. To address the present staff shortage and to anticipate the prospect of one new hire in FY05, the department recommended and the Council approved (March 3, 2002) the hiring of a full-time permanent replacement. Should the departed officer return in FY04 prior to any budgetary commitment for the "thirteenth" officer, the department's budget can absorb the additional cost by (a) reducing part-time personnel costs and (b) deploying lieutenants on shift to fill in for vacancies on an as-needed basis.

A second staff adjustment will be required to satisfy generally accepted auditing practices and to resolve a deficiency in financial operations that has been noted in the City's annual independent audit for many years. Because of our limited staff, the same

person accepts payments for water and sewer bills and also records such payments and performs the billing functions. The lack of any segregation of duties increases the possibility that errors or irregularities may occur and may not be detected on a timely basis. Further, the lack of internal controls creates the opportunity for fraud. Some modest attempts to provide a level of supervisory control have not met minimum auditing standards. The only remedy is to assure that the person who receives payments does not produce and mail the bills, and that the person who posts the income receipts in the general ledger is not involved in reconciling bank accounts and the accounts receivable details to the general ledger. Accordingly, the FY04 Budget anticipates the assumption of more financial accounting duties by the Finance office while retaining the current and popular system of bill payment at the Water department's offices. Upon the City Administrator's recommendation and with the Finance Committee's support on March 24, the accounts receivable clerk's work week will be expanded from 25 hours per week to 40 hours per week. Some of these additional hours will be assigned to the reconciliation of restaurant/bar taxes and the new telecommunication tax receipts. The additional labor expense is partially offset by savings in the Administration department's allocation for management salaries in the deputy budget officer and city administrator positions, as well as reductions in certain contractual services.

Other significant General Fund expenditures include the following:

- debt service of \$355,000 to service the principal and interest on the 1996 and 2002 general obligation bonds.
- a 28% increase in health care spending. The current premium is \$882,414. The increase for the period September 1, 2002 through August 31, 2003 was \$181,866, a 26% increase over the previous year;
- \$180,000 in incentive payments (\$100,000 to Menard's; \$30,000 to Sycamore Mitsubishi; \$30,000 to Sycamore Ford; and \$20,000 to Brian Bemis Automotive Group); and
- an allocation of \$25,000 for accrued leave payouts in the event of the retirement of one or several senior employees.

The FY2004 capital and special funds are all balanced with appropriate reserves. The FY2004 Budget proposes a substantial capital spending program of about \$5,186,000. Of that amount, about \$1,783,000 will be funded by the 2002 general obligation bond proceeds. The highlights of the FY04 capital program are as follows:

- \$2,000,000 for the construction of Well No. 9 (low-interest EPA loan);
- \$1,118,000 for neighborhood street reconstruction;
- \$1,155,000 for public building repairs;
- \$55,000 for new vehicles and equipment;
- \$100,000 for the last phase of engineering for the reconstruction of Bethany Road from Peace Road to DeKalb Avenue.
- \$450,000 for the early months (February-April, 2004) of the utility and reconstruction work on Bethany Road.

Apart from dedicated capital funds, the overall capital program will be partly funded by general revenues. The General Fund will provide about \$150,000 for street and alley

maintenance such as crack-filling and micro-surfacing. This amount will be blended with \$50,000 from the City's Capital Assistance Fund to modestly broaden the scope of the annual neighborhood street maintenance program. Since our general revenues provide a steady share of the funds necessary to pay for the maintenance of our infrastructure, economic development is critical to the City. Sales and use tax proceeds, rather than property taxes, fines, or fees, are the principal source of our general revenues. Without fiscal strength in the form of strong general revenues, our municipal organization will not adequately satisfy the sometimes competing public expectations for more service and more capital improvements.

In FY04 the City's Water and Sewer Funds will finance further efforts to digitize the mapping of the City's storm sewer infrastructure and to keep the digitized water and sewer maps current. The Sewer Fund will dedicate \$8,000 and the Water Fund will dedicate \$13,000 toward this end.

Water user fees will need to be increased in FY04 to finance the installation of treatment facilities at two existing wells (Well #6 and Well #8), and at the new Well #9 on Airport Road, to comply with the EPA's permanent radium standard of 5 pCi/L. The City expects assistance from the Illinois EPA in terms of a long-term, simple interest loan at a low rate. The treatment plan will involve the filtering of well water through a zeolite (Z-88) media and will not involve the softening of the City's water or the discharge of radium to the City's sanitary sewer system. At this writing, in advance of actual contractor bids, it is not possible to prepare a revised water rate structure. However, it is estimated that the total annual additional cost for Wells 6, 8 and 9 will be about \$462,000. If the rate increases are phased in over a two-year period, the water bill for the average residential user will increase from the present \$30 every two months to about \$39 on May 1, 2003 and about \$49 on May 1, 2004. This would result in an annual increase of about \$54 in the first year, and an additional \$60 in the second year, or \$114 over a two-year period. Amendments to the FY04 budget and City Code will be necessary once the City's plan is approved by the Illinois EPA.

Finally, the FY04 budget identifies a number of "unfunded priorities." In the realm of operational expenses, the top unfunded priorities are the raising of shift personnel in the Fire and Police departments. Such increases are consistent with the strategic plan for these departments.

On April 7, the City Council will be asked to receive and file the proposed budget on first reading only. A second and final reading will occur on April 21.

12. ORDINANCES

A. Ordinance No. 2002.73—An Ordinance Amending Title 8, "Water and Sewer," Chapter 4, "Sewer Use and Service," Section 8-4-2, "Additional City Fees," Paragraphs F(2) and F(3) of the City Code of the City of Sycamore, Illinois. Second Reading.

On February 17 the City Council reviewed an ordinance draft that would increase the land annexation fee from \$1,000 to \$3,000 per acre (excluding retention and parks).

The ordinance further stated that for each annexed acre, \$2,000 would be deposited in the General Fund; \$500 would be deposited in the Capital Fund (Fund 6) for street improvements; and \$500 would be deposited in the Sewer Fund to offset the cost of improvements to the collection system and treatment plant.

At the March 3 meeting the Council deferred action to allow the DeKalb County Building and Development Association and other local developers to make a formal reply. At the March 17 meeting, the City Administrator reported several options that had been discussed with the Association and other interested parties. The Council directed the Administrator to revise the annexation fee as follows:

1. Retain a per-acre fee system for industrial and commercial subdivisions at the increased level of \$2,000 per gross acre. The Council reasoned that industrial and commercial developments had a lesser impact on City services and facilities. Moreover, it was agreed that the City is not anxious about the pace of such development; in fact, we welcome such development. The higher per-acre fee (a 100% increase) makes a reasonable adjustment for the City's increased costs in such subdivisions over the past decade.
2. Give a residential developer who proposes a single-family development the option of paying a per-acre fee at the time of final platting that allows for the deduction of retention and park/school dedications; or a per-unit fee of \$1,000 at the time of final platting. It was understood that in the case of multiple family densities, the only economically feasible option from the developer's standpoint would be a per-acre approach.
3. Give those developers who are already annexed and who have made their investments on the basis of the current system an opportunity to pay in full at the current per-acre price of \$1,000 per acre within six months of the date of the enacting ordinance. This will accelerate the payment of fees that would otherwise be paid at final platting, and would not affect the pace of revenue resulting from future subdivisions.

City Council approval is recommended.

B. Ordinance No. 2002.78—An Ordinance Amending Title 10, “Subdivision Regulations,” Chapter 5, “Subdivision Administration and Enforcement,” Section 10-5-4, “Payment of Fees on Annexation, Planned Unit Development, or Subdivision,” Paragraph B of the City Code of the City of Sycamore, Second Reading.

As with the proposed annexation fee, a final recommendation on a fair increase for the City's engineering plan review fee was deferred to March 17 to allow more time for the DeKalb County Building and Development Association to make a formal reply, and for the staff to digest some fee models in other cities. The proposal before the Council on March 17 was to increase the engineering plan review fee from 2% of the total estimated cost of the required public and private land improvements (excluding buildings) to 3%. This fee is currently more than a “review” fee. It includes the City Engineer's review of plans, as well as the City Engineer's field inspections and inspections performed by Public Works and Water Department employees on sewer

and water lines, respectively. The latter take many hours. Each sewer line is pressure tested and tested for deflection by pulling a mandrel from manhole to manhole. Water lines have to be pressure-tested and samples taken before they are put into service, and service taps have to be inspected.

After reviewing the Association proposals, consulting with other communities, and assessing actual City costs, the City Engineer and City Administrator recommended the following:

- a) The imposition of a nonrefundable \$350 deposit to cover the review of subdivision or planned development plans prior to annexation. This fee would be assessed in addition to the filing fees for Plan Commission and Council review. If the City Council approves a subdivision, the deposit becomes a credit and is deducted from the final accounting of the review and inspection costs. If the subdivision or P.U.D. is not approved, the City keeps the deposit.
- b) The imposition of a 2.5% engineering plan review and inspection fee. The separation of the two components of our fee is logical; however, there is no reliable method for estimating the proportional costs of review and inspection that might apply to all subdivisions. Since there is an element of speculation here, the staff felt it would be more accurate and fair to assess one fee that, on average, promises to cover the City's actual out-of-pocket expenses.

The Council concurred with the staff analysis. The attached draft includes a 2.5% engineering fee with an additional requirement of a \$350 deposit.

City Council approval is recommended.

C. Ordinance No. 2002.86—An Ordinance Amending Title 3, “Business and License Regulations,” Chapter 3, “Liquor Control,” Sections 3-2-1, “Definitions,” 3-2-6, “Classification of Licenses; Fees; Hours; and Days,” and 3-2-7, “Number of Licenses” of the City Code of the City of Sycamore, Illinois. First and Second Reading.

On March 17 the Ordinance Committee directed the City Administrator to prepare the following changes to the City liquor code:

- ◆ The classifications have been re-titled. Class “A” is for restaurants; “B” is for bars; “C” is for clubs; “D” is for package goods; “E” is for recreational uses; “F” was created to grandfather the one convenience or food & fuel store (Marathon) that needs some designation for its beer and wine package sales; and “G” is for one-day events as in the present regulations.
- ◆ There are no more liquor licenses for convenience or food & fuel stores.
- ◆ The general level of license renewal fees increases by 50% (from \$1,000 in most cases to \$1,500).
- ◆ An additional license fee of \$250 is charged for clubs and bars that wish to sell package goods.
- ◆ Restaurants are no longer permitted to sell package goods.
- ◆ Restaurants are re-defined so as to prohibit liquor sales from fast food outlets and to reduce the prospect of newer, small restaurants becoming de facto bars.

- ◆ An initial license fee of \$2,500 is imposed on new entrants to the local liquor industry with a gross floor area of less than 3,000 square feet. Applicants whose space will comprise more than 3,000 square feet will be expected to pay an initial license fee of \$5,000. This is a response to the concern about the proliferation of restaurant licenses, in particular, but would apply to any and all license classifications. The three restaurants looking for full liquor licenses—Michael’s, la ZaZa, and TAXCO—would not have to pay this additional fee since they already hold licenses.
- ◆ Population limits are maintained for bars and package stores. However, a supermajority of three-fourths of the corporate authorities (the Mayor and the Council combined) may suspend the proration on a case-by-case basis. In effect, the market will dictate the number of restaurants but, to a lesser extent, the number of bars and package stores because of the legislated constraints on numbers.
- ◆ A threshold for the sale of liquor for consumption on premises is established for bars to keep them from becoming de facto package stores. If an existing licensee (e.g. Cub & Spanks) does not conform to this threshold, it may nevertheless continue to operate in a “grandfathered” fashion.
- ◆ The present number of bars will need to be established to nail down the threshold for further bar licenses. Because of the re-classification of licenses, some current restaurants may want to be considered bars, and vice-versa. The point is to establish a number after the new license designations have been established, and move on. The City Clerk has mailed new license applications to all eligible current licenseholders so they can indicate whether they want to be “restaurants” or “bars.” Again, only bars can sell package goods.
- ◆ An additional bowling alley license is made available. The annual license fee for bowling alleys is \$1,750.

Since the Council meeting of March 17, two new issues have been raised that merit Council attention:

- (1) The revised definition of restaurants permits new restaurants with a minimum occupancy of 50 persons but less than 100 persons to carry a full liquor license if they *“do not have a bar with rail and stools.”* The question raised by a prospective new restaurant owner looking at a space for about 75 persons in the downtown area is: would it be possible to have several small, tall tables with high-backed seats in the vicinity of a serving bar for waiting while tables are being readied? This assumes such a serving bar would be preferable, as a practical matter, to having drinks poured in the kitchen where food is being prepared in possibly tight quarters.
- (2) Mike McAdams has pointed out that he has been allowed a hybrid license that permits a restaurant and a package store (with deli items). It is his intention to apply for a restaurant license, but the new rules would prevent him from selling gourmet wines in his deli as he has done since he opened last year. Since it was never the intent of the Council to force the closure of some or all of an existing line of business, would the Council consider “grandfathering” his operation with the insertion of the following language under the restaurant classification (Section 3-2-6): *“Any lawful restaurant on the effective date of this ordinance that does not*

conform to the provisions of this section or this Code by virtue of its retail sale of gourmet wines and beers from an attached but separate space on the premises may be continued in use.”

Language to effect the change described in Item (b) has been incorporated in the attached ordinance. The interpretation described in Item (a) may only need some confirmation by the Council. City Council approval is recommended.

D. Ordinance No. 2002.87—An Ordinance Amending Title 9, Building Regulations,” Chapter 4, Electricity and Fire Protection,” to Insert a New Section 9-2-5, “Electrical License Fee,” in the City Code in the City of Sycamore, Illinois. First and Second Reading.

The attached ordinance would increase the annual electrical license fee from \$25 to \$50. This increase was discussed in January and February as part of an array of increases in development-related charges, but was inadvertently omitted from the ordinances that were considered and approved by the Council on February 17. City Council approval is recommended.

E. Ordinance No. 2002.88—An Ordinance Concerning the Adoption of the Combined Annual Budget and Appropriation Ordinance for the Fiscal Year 2002-2003 in the City of Sycamore, Illinois. First Reading Only.

As noted under the “Public Hearing” portion of this agenda, the City’s FY2003-2004 fiscal year budget is presented for first reading only.

F. Ordinance No. 2002.89—An Ordinance Concerning the Recommendation of the Sycamore Zoning Board of Appeals With Regard to the Request of Robert Corrigan, Owner of Dari-Ripple, For a Variance from Section 9.03.3a, Front Yard Requirements, of the Zoning Ordinance of the City of Sycamore, Illinois. First and Second Reading.

On Tuesday, March 24, the Zoning Board of Appeals considered a request for a variance from the owner of Dari-Ripple at 675 East State Street. The owner, Mr. Robert Corrigan, wants to construct a rain and sun canopy that would cover much of the waiting area outside his order windows at Dari-Ripple, which is located in a C-3, Highway Business District. As depicted on the attached drawing, the proposed canopy would only cover the existing permanent tables and benches, but would extend into what is known as a “required front yard” in the Zoning Code. According to Section 9.03.3a of the Zoning Code, the required front yard has a depth of 50 feet from the property line, which in this case is the State Street right-of-way.

After some debate, the Zoning Board reasoned that in view of the numerous encroachments into the 50-foot setback area along this stretch of State Street, and because the canopy remained well behind the existing Dari-Ripple sign, a variance could be granted. A slightly shorter canopy that extended only 8 feet into the front yard setback, rather than the proposed 15 feet, was recommended by the Board by a vote of 6-0.

City Council approval of the Zoning Board recommendation is requested.

G. Ordinance No. 2002.90—An Ordinance Approving a Lease Between the City of Sycamore and Zea Mays Holdings, LLC, Regarding Suite 301 of the Sycamore Center. First and Second Reading.

When the City Council agreed to purchase the former Henderson Building, now known as the Sycamore Center, it did so with the expectation that substantial portions of the building would remain on the tax rolls. In the development of plans and specifications for the building remodeling, the third floor was dedicated toward private occupancies such as professional offices and the most visible portion of the main floor was dedicated toward retail uses. Additional square footage including the mezzanine and the basement or lower level are also available for private use that may be subject to property taxation. As presently designed, about 9,800 square feet are available for lease.

Zea Mays Holdings, a Sycamore-based private investment firm, has expressed interest in Suite 301, which includes about 3,800 square feet of the third floor space. The attached lease would secure that space for the private company according to the following basic terms:

- a) a pre-payment of \$80,000 to offset the City's investment in new offices and other finished space on the third floor;
- b) an annual rent equivalent to \$12 per square foot less the present value of the pre-payment amount as amortized over three years, or \$1,402 per month for the first three years. To arrive at this amount, a base rent of \$3,800 is assumed, less \$2,398 (which assumes a carrying cost of 5% per year for the \$80,000 pre-payment).
- c) an option to renew for two years. In the fourth year, with the value of the pre-payment already fully amortized, the monthly rent would be \$3,990. In the fifth year, the value of the base rent would increase by the cost-of-living, as measured by the regional Consumer Price Index.
- d) no security deposit is included in view of the large pre-payment.

City Council approval is recommended. The lease would begin upon the issuance of a certificate of occupancy.

H. Ordinance No. 2002.91—An Ordinance of Intention to Issue Health center Revenue Bonds of the City of Sycamore, DeKalb County, Illinois, in an Aggregate of Principal Amount Not To Exceed \$4,000,000, To Finance All or a Portion of the Cost of the Expansion and Remodeling of an Existing Facility Owned and Operated by the DeKalb Area Retirement Center or related Entity, and To Authorize the Execution of a Memorandum of Agreement By and Among the City of Sycamore and Said Party and Related Matters. First and Second Reading.

The DeKalb Area Retirement Center—otherwise known as Oak Crest—has requested Council action to approve an industrial revenue bond, pursuant to the Illinois Local Government Act, to complete a \$4 million expansion project. Under the provisions of

this Act, the bonds issued by the City would not represent a debt of the City or a pledge of the faith and credit of the City. In addition, issuance of the bonds would not grant to the bond owners any right to have the City levy any taxes or appropriate any funds for the payment of the principal and interest of the debt. Further, the City would have no obligation to pay any expenses associated with the issuance of the bonds.

Because the projects funded from the proceeds of the bond sale would underwrite an investment that has a public benefit in terms of increased employment and better facilities for seniors, the bonds can carry a tax-exempt status and, thereby, a lower interest rate.

Practically speaking, the City loans the proceeds of the bond sale to Oak Crest, which in turn issues to the City a promissory note in the same amount. The City completes the process by assigning the note to a local bank or banks without recourse. This last step removes the City from any financial or legal obligation. The tax-exempt status of the bonds allows the bank(s) to loan the proceeds to Oak Crest at a lower-than-market rate of interest.

City Council approval is recommended.

13. RESOLUTIONS

A. **Resolution No. 435—Recommending the Amendment of the State of Illinois Downstate Public Transportation Act to Identify the City of DeKalb, on the Behalf of the DeKalb-Sycamore Urbanized Area, as an Eligible Grantee for State Transit Funding Under This Program, and to Seek an Appropriation of \$1.5 Million in State Funds Through This Program.**

In December 2002, the City of Sycamore joined the City of DeKalb, the County of DeKalb, Northern Illinois University and the State of Illinois Department of Transportation in organizing a metropolitan planning organization to funnel federal transportation dollars to planned projects in this area. The organization of such an umbrella organization was mandated by the federal government because of our region's classification as an "urban area" as a result of the 2000 Census.

Under this federal highway assistance program, the federal government will fund 80% of eligible projects and the participating local jurisdictions or agencies will fund 20%. Some of the annual funding will be available for planning purposes, which is to say that some office expenses, personnel costs, and contractual services can be funded by the annual federal allocation. How is the list of eligible projects created? The policy-making body of the MPO gets recommendations from its own Technical Committee about county-wide transportation needs. The Technical Committee consists of city engineers, city administrators and managers, the executive director of the Voluntary Action Center, etc. These professionals do the legwork to compile priorities and projects for the review and approval of the Policy Committee. These needs are then distilled by the policy-making board into an annual "transportation improvement program" ("TIP") that is part of a five-year projection of prioritized capital projects. Each year, the "TIP" sheet is updated along with the five-year plan, and sent to the Springfield office of IDOT for forwarding to the federal government. The federal

budget year begins on October 1 so authorizations are not known until sometime after October 1 of each year.

By federal regulation, the largest municipality by population is the lead agency in a county-wide MPO, so DeKalb is the lead agency in the DeKalb-Sycamore Urbanized Area. DeKalb's City Manager appoints the staff support—the “Study Director”—who coordinates all staff work in behalf of the MPO. The recent appointment of Ray Keller, City Planner for DeKalb, as director was approved by the requisite three-fourths of the Policy Committee.

The item before the Council has a strategic importance for the future funding of mass transit in this area. By virtue of its population of greater than 50,000 residents, the DeKalb-Sycamore Urbanized Area is now eligible for reimbursement for transit operating expenses under the Downstate Public Transportation Act which reserves a portion of the annual state sales tax for mass transit purposes. These monies would augment the federal monies that the MPO was created to solicit in a more organized fashion. Representatives of the Voluntary Action Center serve on the MPO policy board in an ex-officio role and made the policy committee aware of this opportunity at the last regular meeting of March 24. The possible uses of the funds are varied, but could include some supplemental funding for a pilot service for Sycamore, in addition to the maintenance of VAC's existing services.

A similar resolution will be presented to the other taxing bodies represented in the MPO. City Council approval is recommended.

B. Resolution No. 436—Re-Allocating the City of Sycamore's Private Activity Bond Volume Cap for the Year 2003 to the Illinois Housing Development Authority for the Purpose of Issuing Mortgage Credit Certificates in the City of Sycamore, Illinois.

According to the provisions of the Federal Tax Reform Act of 1989, all states have authority to allocate “private bond authority” with a ceiling tied to population. States may allocate their “ceiling” among the governmental units including home rule communities and certain state agencies such as the Illinois Housing Development Authority (IHDA) and the Illinois Development Finance Authority (IDFA). Communities are allocated private bond authority or “volume cap” on a per capita basis. Federal law limits the use of this volume cap for industrial revenue bonds or mortgage revenue bonds. Municipalities have the option of issuing their own bonds, transferring their authority to other communities, ceding their volume cap to one of the authorized state agencies for use on behalf of the City, or returning the authority to the State of Illinois which pools unused bond authority for state-assisted private development projects.

In the state of Illinois, there are three principal options for the municipal use of this bond authority: industrial revenue bonds, mortgage credit certificates, and a home equity loan program. In December 1998 the City ceded most of its bond authority to Kishwaukee Hospital which used the tax-exempt status to help finance a major facility

expansion. Since then, the Council has annually ceded its authority to IHDA to create a mortgage credit certificate option.

The Illinois Housing Development Authority (IHDA) annually sponsors a mortgage credit certificate program that allows qualified first-time homebuyers to take 25% of the annual interest paid on their new mortgage as a credit against their federal income tax liability. The qualifying income levels are set each year and vary depending on the household size. This year, the upper income limit for a family of three or more in DeKalb County is \$73,600. For a household of one or two persons, the upper qualifying limit is \$64,000. The program also sets upper limits on home prices. This year, the upper limit on a new home is \$203,050 and the upper limit on an existing home is \$199,230.

The lending bank typically acts as the intermediary with IDHA. At the time a home is purchased, a certificate is issued to the homeowner. This certificate is filed with the homeowner's income tax to establish the credit. For example, say a buyer takes out a \$92,000 conventional market rate mortgage at 6.25%. On a 30-year fixed rate loan, the buyer would pay \$5,719 in mortgage interest in year one. With a mortgage credit certificate, the buyer can take 25% (\$1,430) off his or her federal income tax obligation which is the same as retaining \$119 in additional income per month. Over the life of the loan, the buyer would save \$27,981 in federal taxes.

The MCC tax credit is good for the life of the loan, so the tax saving is repeated so long as the family remains in the home. In addition to the direct benefit to the homebuyer, the program provides an incentive for local families to buy a home in Sycamore.

The mortgage credit certificate program brings no direct expense to local taxpayers and involves no staff work. IHDA and participating banks do all the paperwork, although the City may wish to assist in advertising the option. The volume cap is used exclusively by Sycamore residents for 18 months, and IHDA provides quarterly reports on the number of participating families, the average purchase price of the homes, and the amount of credits remaining.

The advantage of this program for prospective homebuyers with low to moderate household incomes is obvious. It should also be noted that a commitment of private bond authority to the IHDA program would not preclude the City from dedicating next year's volume cap to industrial revenue bonds if a worthwhile project develops.

The only downside to the mortgage credit certificate program is the limited number of families that can benefit under the City's modest cap. The City's "authority" will be \$75 per capita or \$901,500 based on a population of 12,020. Based on the average purchase price of \$151,318 for three-bedroom homes--new and used--in Sycamore in 2002 (Board of Realtors estimate), and an average down payment of 20%, only 7-8 Sycamore families might qualify.

City Council approval is recommended.

14. CONSIDERATIONS

A. Consideration of a Public Works Department Recommendation to Award a Contract for Emergency Repairs to the Treatment Plant Roofs.

At this writing, Public Works Superintendent Fred Busse is soliciting proposals from area roofing companies for the re-roofing of the office and garage bays at the City's Treatment Plant on North Cross. Recent rains have revealed substantial deficiencies that cannot be remedied with some tarring and patching. Mr. Busse will be prepared to make a recommendation regarding the contractor and the funding at the April 7 meeting.

B. Consideration of an Administration Recommendation to Award the Contract for the FY2003 and FY2004 Independent Audit to Clifton Gunderson, LLP.

In the Spring of 2002, the City Administrator solicited proposals from professional auditing firms for the annual audit of the City's financial records. The annual financial audit includes an audit of the City's combined financial statements, including statements and documents associated with its operating funds, capital funds, special funds, enterprise funds, bond funds and pension funds. The complete audit also includes a report on the City's compliance with generally accepted accounting practices; a management letter; and the filing of various reports to the Illinois Comptroller, the Department of Commerce and Community Affairs, and the Single Audit Clearinghouse. Of the firms that presented qualified and complete proposals, Clifton Gunderson presented the lowest price of \$17,900. The Council awarded the contract to Clifton Gunderson. In the performance of the annual audit, Clifton Gunderson was very efficient and timely. In addition, the rigor of their analysis aided the City in implementing certain new procedures that will remedy outstanding deficiencies in the longstanding system of internal controls.

Typically, private and public organizations enter multiple-year contracts with accounting firms to develop reporting techniques that reliably represent both the year-end position of the organization as well as any targeted points within a fiscal year. However, relationships that are not tested after a number of years can lead to less rigorous analysis. Prior to 2002, the City's accounting relationship with Siepert & Co. was uninterrupted for over eight years. This long tenure did not diminish the quality or integrity of the reporting, but in the post-Enron environment it would be prudent to more cautiously re-assess an accounting relationship at more regular intervals.

The attached proposal from Clifton Gunderson proposes a second and third year of audit services, after which it is assumed that a request for proposals would again be circulated to regional firms. The price remains right: the 2003 audit cost is the same as the 2002 audit cost, and the audit for the year ending April 30, 2004 would increase by only 2.8%.

When Clifton Gunderson presented their audit report on October 21, 2002 the Council was very complimentary about the organization and clarity of the documents. The City Administrator and Finance division staff concurred. Moreover, since the audit was

completed, Clifton Gunderson has provided timely support in helping the Water department and Finance division staffs develop a better system of internal control at no extra cost to the City. On the basis of price, quality, and accessibility, the City Administrator recommends that the City enter a two-year contract with Clifton Gunderson for auditing services.

14. APPOINTMENTS

15. ADJOURNMENT