

SYCAMORE CITY COUNCIL
AGENDA
May 19, 2005

**Joint Meeting of the Sycamore City Council
And the Sycamore Board of Education**

7:00 P.M.

**Lower Level of The National Bank & Trust Company
230 West State Street**

1. CALL TO ORDER

2. APPROVAL OF AGENDA

3. NEW BUSINESS

A. Presentation of the Community Fiscal Impact Study Prepared by the NIU Center for Governmental Studies.

On March 21, 2005 the City Council received a final copy of the community fiscal impact study completed by Roger Dahlstrom, senior research associate, and Theresa Wittenauer, research associate, of the NIU Center for Governmental Studies. This study was commissioned by the City Council on September 20, 2004 at a cost of \$39,500. The principal purpose of this joint meeting is to provide a forum for the presentation of the study's findings to the newly-constituted School Board and City Council as well as other interested stakeholders. Joining the Board and the Council will be representatives of the Sycamore Park District, the Sycamore Public Library, the Sycamore Plan Commission, the Sycamore Chamber of Commerce, the Sycamore Economic Development Commission, the DeKalb County Economic Development Corporation, and the DeKalb County Building and Development Association. After the presentation by Mr. Dahlstrom and Ms. Wittenauer, the authors will entertain questions.

By way of background, the study's scope of work was to assess the combined impact of residential, commercial and industrial development on the fiscal health of the City of Sycamore, the Sycamore Community Unit School District #427, the Sycamore Park District, and the Sycamore Public Library. Each taxing body involved in the study was approached at an early stage for copies of their annual budgets, any long-range planning documents that might inform the study, and a variety of statistical data that would be

instrumental to a clear understanding of each taxing body's principal revenues and expenditures.

The study's time line was for ten years beginning in 2005. From the standpoint of revenues, each of the participating taxing bodies is dependent, to a varying extent, on real estate tax revenues generated by land development. In the case of the School District and the Park District, which are subject to tax caps, appropriate adjustments were made to projected property tax revenues within the constraints of PTELL legislation. It should also be noted that since both revenues and expenditures were projected over a ten-year period, adjustments were made in the fiscal impact analysis for the time value of money. A net present value calculation using a discount rate of 5% was chosen for the report.

Finally, the fiscal impact of development on capital and operating budgets was considered.

The study is broken down into several sections. Section 1 (pages 3-11) provides general background on the principal revenues and expenditures for each participating taxing body. Section 2 (pages 12-14) assesses the impact of "active development." This means the predominantly residential development presently unfolding within the city limits. Section 3 (pages 15-19) assesses the fiscal impact of "combined development" which includes the "active" development underway in late 2004 and projected or future development from 2005 through 2014 based on the City's 2003 Comprehensive Plan. This section utilizes the Fiscal Impact Land Use Model (FILUM) to create the vital linkage between fiscal analysis and land use planning. The land use projections for this section are based on a land use capacity model that is closely tied to the land use designations in the 2003 Comp Plan and the Council's recent regulations to control the pace of residential growth (much of the "active" development is not controlled by such regulations). In addition, looking forward, it is assumed that the City will make annexation decisions that "cap" the annual absorption of "regulated" developments at 250 dwelling units per year in years 5 through 10 (2010 through 2014), or in the period when the unregulated residential development shall have been absorbed.

The text of the study and its related tables should be read in its entirety and at several sittings to appreciate the sophistication of the technical analysis. Nevertheless, it may be useful to highlight a number of the leading conclusions about "combined" development as greater commercial and industrial development is absorbed in future years. The key study findings are as follows:

The City:

a. It is assumed that current market demand and City land use policies will continue through the 10-year projection period. The commercial component of future development is projected in waves in years 3, 6, and 9 in response to continuing residential development. Office/research and industrial development is expected to build out at a uniform rate based on a strong City policy orientation to promote industrial development and the available land for such development.

b. The current estimate of City population is estimated to be 14,354; the prevailing per capita cost for residential development is estimated to be \$895. The cost to serve non-residential development is expressed on a per-acre basis because of the markedly reduced demand for services.

c. Year-to-year there will be variations in the fiscal impact balance for the City, primarily as a result of the relative balance between ongoing revenues (such as property taxes) and one-time revenues (such as annexation fees).

d. Based on these assumptions, the net present value of the revenue/cost balance for the City is positive at \$2,922,445.

The Sycamore School District:

a. The study assumes that future residential annexations by the City will yield at least a \$1,000 “voluntary” contribution per dwelling unit in addition to impact fees as they may be revised from time to time (the study suggests every 3-5 years. See page 10).

b. In calculating capital costs, the cost of acquiring school sites is not included. The District already has dedicated land for future school sites.

c. It is assumed that some dwelling units provide a net positive impact considering their estimated values and probable demographic profiles. Examples include “active adult” units as well as estate-sized homes generating disproportionate property tax revenues.

d. The estimated service cost per student is assumed to be \$7,581.57.

e. Based on the assumptions in “a” through “d”, above; the continuation of current City permit regulation policies; the build-out in acres for the various commercial, residential and industrial land uses in the 2003 Comp Plan; *and no change in the basis of school funding at the state level*; the net present value of the District’s revenue/cost balance will be negative at \$8,469,503 over the ten year projection period. However, the study makes it clear that the development of commercial and industrial property has a profoundly positive impact on the School District. If no additional commercial or industrial development were to occur in the next ten years, and residential development was to occur as projected in the 2003 City plan, the District would see a negative net present balance of \$18,906,712.

The Sycamore Park District:

a. Projected costs are based on assumptions about the development of new park facilities as outlined in the District’s most recent comprehensive planning document. The estimated service cost per capita is \$108.98.

b. Based on this assumption, the net present value of the revenue/cost balance is positive at \$1,293,057 over the ten year projection period.

The Sycamore Public Library:

- a. The Library's property tax rate along with periodic increases in user fees will offset any growth in demand for services as the City's population grows. In other words, it is assumed that Library levies can rise incrementally on an annual basis, but not so much as to increase the tax rate.
- b. The estimated service cost per capita is \$47.20.
- c. Based on these assumptions, the net present value of the revenue/cost balance is positive at \$1,780,215 over the ten year projection period.

General Study Conclusions:

- a. New housing is contributing more than existing housing to the funding of public services from the standpoint of new home values and the resulting tax contributions. For example, the average price of all homes sold in Sycamore in November 2004 was \$200,877. That figure is 61% of the estimated average or mean value (\$331,429) of new detached single family homes in active development in the City.
- b. A comprehensive fiscal impact study of the kind completed by Mr. Dahlstrom and his associates is more meaningful than the development-by-development studies completed by City staff in recent years. The individualized studies do not account adequately for the fiscal impact of the community's changing tax base, or its mix of residential, commercial and industrial uses. The present study can be reviewed every few years to account for any change in the key revenue and cost variables.
- c. Absolute fiscal impact should not be used as the only, or even the primary, measurement of the relative desirability of land development. As a place to live, shop, work and recreate, Sycamore has arguably become a more interesting and diverse community as a result of recent growth.

A copy of the study is attached. Additional copies of the study will be available at the meeting.

B. Consideration of an Ad Hoc Committee on Growth Management, Appointed by Mayor Mundy, to Investigate and Recommend Options to Help Resolve Fiscal Imbalances Due to the Projected Pattern of Economic Growth in the Period 2005-2015.

With the advice and consent of each participating group or taxing body, Mayor Mundy will appoint an ad hoc committee that will work toward a consensus on what the Sycamore community can do to close the fiscal gap between projected School revenues and expenditures over the next ten years. In view of the central role of the School District and the City government in reaching a workable remedy, the District and City will each provide a technical staff person and an elected official. One representative from each of the other participating entities will be appointed, and each group may propose an alternate to serve in his or her absence. The constituent groups are as follows:

- City of Sycamore
- Sycamore School District
- Sycamore Park District
- Sycamore Public Library
- Sycamore Plan Commission
- Sycamore Chamber of Commerce
- Sycamore Economic Development Commission
- DeKalb County Economic Development Corporation
- DeKalb County Building and Development Association

Mayor Mundy will appoint a moderator so the Mayor can participate actively in the dialogue.

Mayor Mundy has stated that “all options are on the table.” In terms of financial options to close the operating deficit for Sycamore schools, the following list is “on the table” along with other options that may be suggested by members of the ad hoc committee. The items below are not listed in any presumed order of importance. Each has pros and cons that will invite detailed discussion, and a combination of options may ultimately serve as well as any one option.

- Raising School impact fees. The current fee structure was approved by the City Council on February 16, 2004 and is described in the table below:

Per Unit Fee	2 BR	3 BR	4 BR	5 BR
Detached Single Family	736	2,947	5,013	3,886
Attached Single Family	698	1,303	2,659	
Apartments	713	1,935		

In the calculation of these fees, the adjusted price per acre of land is \$110,000. The price per acre is computed as follows: take the average cost of a vacant ¼ acre lot (\$55,000), extrapolate the price per acre (\$220,000), then discount that price by 50% for detention, utilities, rights-of-way, zoning setbacks, etc. and the result is \$110,000.

From January 1, 2004 through December 31, 2004, the total of all School impact fees tied to permits issued by Sycamore’s Building department totaled about \$575,000. At current tax exempt bond rates, such revenue might amortize the annual debt service for a new elementary school over 15 years. *Impact fees are not imposed on existing housing, and cannot be used to offset operating expenses or to remedy deficiencies in existing buildings.* In addition, ongoing analysis needs to be performed to assure that a direct relationship can be demonstrated between the exaction and the actual impact of a new development.

- Imposing a higher “voluntary” fee from residential developers in all new annexation agreements. Beginning with the Sycamore Creek project in

August 2002, “voluntary” fees over and above impact fees have been negotiated during annexation discussions and recorded in annexation agreements. These fees are often contributed in lump sums by developers rather than paid at the time of permitting, and can be used in an unrestricted fashion by the School District for either operational or capital needs. The fiscal study projects the School deficit to be \$8,469,503 over the period 2005-2015. At the 2004 enrollment level of 3050, that would be \$2,777 per student over the same ten-year period, or about \$278 per year per student. According to City occupancy surveys over the past fifteen months, the average new household is about 2.7 persons including about .7 students (about 64% of all new Sycamore occupancies since March 2004 have had no school children). The fiscal study assumes a “voluntary” fee of \$1,000 per unit. Given the results of the fiscal study, the “voluntary” fee for a new single family home might be increased from \$1,000 to about \$3,000 (.7 students per household times \$2,777 = \$1,943.90 plus the \$1,000 already included in the fiscal projection for the period 2005-2015). This payment would arguably settle accounts for the new students moving into the new single family house in Subdivision “X.” *However, the annual shortfall associated with school-aged children moving in and out of existing homes would not be diminished, nor would the shortfall associated with many platted but unbuilt lots.*

Using the bedroom-based proportional formula that is the basis of the School impact fee schedule, the following voluntary fee formula could be requested in future annexation agreements:

Per Unit Fee	2 BR	3 BR	4 BR	5 BR
Detached Single Family	440	1,764	3,000	2,326
Attached Single Family	418	780	1,591	
Apartments	427	1,158		

Based on current market trends, if we assume that $\frac{3}{4}$ of the new single-family detached homes permitted in future residential subdivisions will have 4 bedrooms (with $\frac{1}{4}$ having 3 bedrooms), and the attached single-family townhouses and condominiums will have an average of two bedrooms, such fees could generate an additional \$575,000 per year for the unrestricted operating use of the School District in the period 2010-2015 if paid at the time of permitting, or sooner if paid by the developer in full at the time of annexation.

- Increasing student fees. If the deficit is \$278 per student per year, the School District could raise student fees by that amount. The School Board is presently reviewing student fees. If fee increases are considered, should

families with children occupying new housing in the District pay higher student fees to offset operational deficits *in addition to* impact fees or transitional fees or voluntary fees?

- Increasing the City's Home Rule Tax by ¼ percent. In March 2000 the City raised its home rule tax from .50 percent to .75 percent. Proceeds from that one-quarter percent have since been deposited in the City's general capital fund, and are easy to trace. The total revenue generated annually is now about \$385,000. The City and committee will have to consider the following: (a) the impact on local sales if such an increase was imposed; (b) Sycamore's current competitive advantage vis-à-vis its neighbors (DeKalb has a 2.25% home rule tax); and (c) the fact that the City's revenue-sharing agreements with United, American, and Pulte may be determined null and void by the vendors in the event of a rate change.
- Imposing "transition fees" on new home owners. Transition fees are a category of exaction that has been adopted by growing Illinois communities in recent years (including Waterman and Yorkville). The purpose is to provide additional revenue for a School district from the time of occupancy of a new home until tax money based on the full assessed valuation of the new home has been received by the District. To date, many of the transition fee schedules in effect in Illinois communities have been implemented to raise revenue for operating purposes. Several issues will need to be addressed with respect to transition fees: (a) to avoid a legal challenge some analysis needs to be undertaken to determine service costs per student; (b) such fees fall on new homes and not on existing homes; and (c) the Illinois courts have not considered challenges as to whether these fees are truly taxes since their justification is usually tied to the delay in full assessment. If considered taxes on court review, they may be judged selective in their impact as they would not apply to commercial and industrial property. The safer way to apply these fees, legally speaking, is through mutual agreement in the context of an annexation agreement.
- Imposing a real estate transfer tax for exclusive School District use. It is easier to divine a formula to show how new housing can pay for itself, than it is to prescribe means to make existing homes pay their fair share of the cost of schooling each student. *Existing homes provide no impact fees and would not yield "voluntary" fees or transition fees.* One untried method is the imposition of real estate transfer fees. Such fees are typically charged against the buyer of real estate, whether it is a new property or an existing property and whether it is residential, commercial, or industrial real estate. Even in home rule cities, a referendum is required to impose such a tax. In the referendum, the rate and the purpose must be identified. Real estate transfer fees tend to slightly depress the price of real estate, since the buyer will try to discount the final sales price by a comparable amount.

In November of 2004, the DeKalb County Board of Realtors estimated that the average price of all homes sold in Sycamore was \$200,877. The average price of a four-bedroom was \$315,214 and the average price of a two-

bedroom was \$116,763 (inclusive of attached townhouses). Using conservative permit projections for 2005, a real estate transfer fee rate of ½ percent would generate about \$300,000 from new single-family detached homes, another \$70,000 from new attached townhouses, and \$200,000 from the sale of existing units, for a total of \$570,000. Unlike impact fees, transition fees, and “voluntary” fees, this fee would fall on both new and existing home sales. If imposed, should pro rata adjustments be made in impact fees on new homes to offset the disproportionate contributions of new homes versus existing homes? Real estate transfer fees also fall on all commercial and industrial properties that change hands. This raises a different issue: would a ½ percent fee charged against an industrial or commercial property be a disincentive at a real estate closing?

- Revising School spending priorities? When expenditures are projected to exceed revenues by a taxing body and the community is asked to help, policymakers and taxpayers will unavoidably ask for an assessment of the cost side of the equation. School officials continually wrestle with spending issues and will be able to address any questions.
- Adjusting the School Education Fund levy upward while reducing the School Bond & Interest Levy. If impact fees and other capital sources can be found to address future construction needs, could adjustments be made by referendum to increase the education levy and decrease the debt service levy to gain more operating revenue without increasing the overall School tax rate?
- Imposing a moratorium on residential annexations until 2010. This option was raised in August of 2004 but not supported by the City Council, primarily because of the negative message it would send to commercial and industrial prospects, and the negative economic impact that many local business owners feared would result.
- Achieving a state legislative solution to the school funding dilemma. The options listed herein assume that the Illinois legislature will not find the collective wisdom and political courage to measurably improve school funding while balancing the state budget. Is this realistic? Is it reasonable to assume that for the next ten years the state political stalemate will continue unabated? Can Sycamore’s partners in education work more effectively to prompt a creative state-wide plan?

Good schools are the goal of every thoughtful Sycamore resident, taxpayer and business owner. The premise behind the ad hoc committee is that the entire Sycamore community should pay the price of good schools. The resourceful analytical thinking offered by the entities represented on the ad hoc committee should lead to a unique “Sycamore” solution to the projected School funding deficit.

4. ADJOURNMENT

