

**SYCAMORE CITY COUNCIL**  
**AGENDA**  
**December 21, 2009**

**CITY COUNCIL COMMITTEE MEETINGS**  
**6:30 P.M.**

The Committee of the Whole will meet at 6:30 p.m. to participate in a survey conducted by the NIU Division of Public Administration. Dr. Jerry Gabris, Dr. Curtis Wood and Dr. Kimberly Nelson are conducting a survey of northern Illinois and Chicago-area local government officials to assess how local governing bodies see their roles and the roles of their staff. The survey will also invite information about any innovative steps that have been taken by the City of Sycamore to address financial and developmental issues confronting the community. The survey will not identify individual responses and will only use aggregate data for possible presentation in academic journals. It's expected that the survey will take about 20 minutes.

**REGULAR CITY COUNCIL MEETING**  
**7:00 P.M.**

- 1. CALL TO ORDER**
- 2. INVOCATION**
- 3. PLEDGE OF ALLEGIANCE**
- 4. APPROVAL OF AGENDA**
- 5. AUDIENCE TO VISITORS**
- 6. CONSENT AGENDA**
  - A. Approval of the Minutes for the Regular City Council Meeting of December 7, 2009.
  - B. Payment of the Bills for December 21, 2009.
- 7. PRESENTATION OF PETITIONS, COMMUNICATIONS, AND BILLS.**
- 8. REPORTS OF OFFICERS**
- 9. REPORTS OF STANDING COMMITTEES**

**10. PUBLIC HEARINGS--None**

**11. ORDINANCES**

**A. Ordinance No. 2009.41--An Ordinance Levying Taxes for the Corporate Purposes of the City of Sycamore for the Fiscal Year Commencing May 1, 2010 and Ending April 30, 2011. Second Reading.**

On December 7, 2009 a public hearing was held on the proposed 2009 corporate property tax levy for the City of Sycamore. The proposed corporate levy of \$3,464,142 includes a City levy of \$2,624,621 (+\$76,445 or 3%) and a Sycamore Public Library levy of \$839,521 (+\$25,034 or 3%). Assuming a city-wide EAV of \$455,000,000 in 2009, the proposed corporate tax rate should be \$0.76135 per \$100 EAV, essentially level with the 2008 corporate rate of 0.76025 per \$100 EAV, based on a 2008 corporate levy of \$3,362,663. City Council approval on second reading is recommended.

**Historic City EAV, City Levy, and City Tax Rate Totals:**

Year	EAV	City Levy*	City Tax Rate* Per \$100 EAV
1966	\$27,220,176	\$216,252	.7945
1976	\$44,278,153	\$679,882	1.5355
1986	\$56,800,908	\$934,248	1.6448
1996	\$145,647,122	\$1,792,999	1.2318
1997	\$155,861,773 (+7%)	\$1,822,000 (+2%)	1.1689 (-5%)
1998	\$165,664,346 (+6.3%)	\$1,896,660 (+4%)	1.1449 (-2%)
1999	\$172,022,591 (+3.84%)	\$1,934,593 (+2%)	1.1246 (-2%)
2000	\$185,519,631 (+7.85%)	\$1,973,285 (+2%)	1.0648 (-5%)
2001	\$201,706,953 (+8.7%)	\$2,032,484 (+3%)	1.0076 (-5.37%)
2002	\$216,389,113 (+7.28%)	\$2,134,108 (+5%)	.98627 (-2.1%)
2003	\$241,138,805 (+11.4%)	\$2,198,131 (+3%)	.91223 (-7.5%)
2004	\$261,496,432 (+8.4%)	\$2,264,075 (+3%)	.865814 (-5%)
2005	\$309,324,156 (+18.3%)	\$2,331,997 (+3%)	.75444 (-12.9%)
2006	\$359,225,508 (+16%)	\$2,401,957 (+3%)	.66912 (-11.3%)
2007	\$410,867,373 (+14.3%)	\$2,462,006 (+2.5%)	.59965 (-10.4%)
2008	\$442,308,820 (+7.6%)	\$2,548,176 (+3.4%)	.57759 (-3.6%)

\*Excludes Sycamore Public Library and Sycamore Hospital.

**Proposed City Levy and City Levies of Recent Years:**

	2002	2003	2004	2005	2006	2007	2008	2009
Total Levy	2,134,108	2,198,131	2,264,075	2,331,997	2,401,957	2,462,006	2,548,176	2,624,621
Police Pension	152,883	169,045	167,080	213,305	233,410	259,054	268,204	295,024
Fire Pension	213,142	257,961	260,762	303,729	309,399	327,018	381,471	419,618
FICA/IMRF	247,500	275,000	302,225	302,225	310,870	310,870	310,870	341,957
Crossing Guards	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
General Operations	1,398,959	1,476,125	1,514,008	1,492,738	1,528,278	1,545,064	1,567,631	1,548,022
City-Wide EAV	216,389,113	241,138,805	261,496,432	309,324,156	359,225,508	410,867,373	442,308,820	455,000,000
City Tax Rate	.98627	.91223	.865814	.75444	.66912	.59965	.57759	.57684

**Proposed Sycamore Library Levy and Library Levies of Recent Years:**

<b>Recent Library Levy History</b>	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Operating & Insurance	\$458,603	\$526,501	\$537,185	\$557,713	\$610,632	\$651,804	\$698,447	\$741,287	\$748,070
FICA	\$22,621	\$23,438	\$25,930	\$26,995	\$27,694	\$29,270	\$32,000	\$35,700	\$38,492
IMRF	\$19,396	\$15,627	\$19,308	\$26,253	\$21,611	\$31,200	\$31,612	\$35,000	\$50,309
Audit	\$250	\$655	\$1,184	\$1,243	\$1,243	\$1,800	\$2,000	\$2,500	\$2,650
Total Library Levy	\$500,870 (+6%)	\$555,758 (+11%)	\$583,607 (+5%)	\$612,204 (+4.9%)	\$661,180 (+8%)	\$714,074 (+8%)	\$764,059 (+7%)	\$814,487 (+6.6%)	\$839,521 (+3%)
Library Rate	.2483 (-2.4%)	.25683 (+3.44%)	.24202 (-5.8%)	.23413 (-3.3%)	.21377 (-8.7%)	.19880 (-7%)	.18598 (-6.5%)	.18451 (-1%)	.18451 (+0%)

**B. Ordinance No. 2009.42--An Ordinance Abating the Debt Service Levy for the General Obligation Bond Issue Series 2002 for the City of Sycamore, DeKalb County, Illinois for Fiscal Year 2010-2011. Second Reading.**

All of the debt service (\$302,852.50) on the 2002 Bond series will be abated. This approach is consistent with the City policy of paying the greatest share of its annual general obligation bond debt service from general revenues other than property taxes.

The attached ordinance will levy \$302,852.50 and abate \$302,852.50, so the extension will be \$0.0. The debt service will be paid by the 2002 Bond Proceeds Fund (Fund 24) which gets its primary revenue from General Fund and Capital Fund (Fund 6) transfers.

City Council approval on second reading is recommended.

**C. Ordinance No. 2009.43--An Ordinance Abating the Debt Service Levy for the General Obligation Bond Issue Series 2003 for the City of Sycamore, DeKalb County, Illinois for the Fiscal Year 2010-2011. Second Reading.**

This ordinance concerns the debt service on the General Obligation Bond Series 2003, issued in September 2003. The levy of \$149,155 will be abated in its entirety. The debt service will be paid from the 2003 Bond Fund (Fund 26) which receives its primary revenue from Capital Fund, MFT Fund, and 1999 Bond Fund transfers.

City Council approval on second reading is recommended.

**D. Ordinance No. 2009.44--An Ordinance Partially Abating the Debt Service Levy for the General Obligation Bond Issue Series 2005 for the City of Sycamore, DeKalb County, Illinois for the Fiscal Year 2010-2011. Second Reading.**

This ordinance would abate the debt service on the 2005 refunding bond that refinanced the outstanding 1999 bond series at a lower interest rate. All of the 1999 bond series that remained outstanding at the time of the issuance of the \$2,965,000 2005 G.O. Bond were redeemed in June 2005. The debt service obligation for FY2010-2011 is \$327,327.50. The levy is \$155,000 and the abatement is \$172,327.50. The debt service will be paid from the 2005 Bond Fund (Fund 27) which gets its revenue from transfers from the General Fund, the Water Fund, the Sewer Fund, the Motor Fuel Tax Fund, and the Road & Bridge Fund.

City Council approval on second reading is recommended.

**E. Ordinance No. 2009.45—An Ordinance Abating the Debt Service Levy for the General Obligation Bond Issue Series 2007 for the City of Sycamore, DeKalb County, Illinois for the Fiscal Year 2010-2011. Second Reading.**

This ordinance concerns the FY2010-2011 debt service on the General Obligation Bond Series 2007. The levy of \$195,352.50 will be abated in its entirety. The debt service will be paid from the 2007 Bond Fund (Fund 29) which receives its principal revenue (excluding interest) from a General Fund transfer.

City Council approval on second reading is recommended.

**F. Ordinance No. 2009.46--An Ordinance Abating the Debt Service Levy for the General Obligation Bond Series 2009 for the City of Sycamore, DeKalb County, Illinois for the Fiscal Year 2010-2011. Second Reading.**

This ordinance concerns the FY2010-2011 debt service on the General Obligation Bond Series 2009, which was issued in September 2009 to finance the Police addition which will be constructed in 2010. The levy of \$284,195.69 will be abated in its entirety. The debt service will be paid from the 2009 Bond Fund (Fund 34) which will receive its principal revenue in FY11 from a transfer from the Sales Tax Distributive Fund (Fund 22).

City Council approval on second reading is recommended.

**G. Ordinance No. 2009.47—An Ordinance Abating Certain Real Estate Revenue Due for Property Owned by Emmaus Holdings/d.b.a. Superior Industrial Equipment at 1609 Afton Road in the City of Sycamore, DeKalb County, Illinois for Fiscal Year 2010-2011. Second Reading.**

In October 2007 the owners of Superior Industrial Equipment applied for a property tax abatement to relocate their firm from the Cortland Industrial Park to the Sycamore Prairie Business Park. The City Council and the boards of all the Sycamore-area taxing bodies agreed to participate in a multiple-year abatement schedule as shown in the table below:

<b>Taxing Body</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
City of Sycamore	90%	75%	50%	0%
County of DeKalb	90%	75%	50%	0%
Sycamore Library	90%	75%	50%	0%
Cortland Township	90%	75%	50%	0%
Sycamore Schools	0%	75%	50%	0%
Sycamore Park District	90%	75%	50%	0%
Kishwaukee College	90%	75%	0%	0%

On the strength of this commitment, the owners of the firm broke ground in the Sycamore Prairie Business Park in mid-November 2007 and opened their new facility in December 2008. The company sells new and refurbished industrial pumps and performs just-in-time repairs in its shop. Since opening in Sycamore, the company has increased its workforce by five persons (to 21) on top of its \$1.2 million investment.

The 2009 levy year is the first year of full assessment for the firm. The assessment values for Superior Industrial Equipment are shown in the table below:

Year	Land EAV	Building EAV	EAV Total
2009	\$43,816	\$357,117	\$400,933

Based on the total EAV for the Superior Industrial Equipment parcel (#09-06-426-011) in 2009, the City’s 2009 abatement is estimated to be \$2,081.47 (.0057684 x \$400,933 x .9 = \$2,081.47.

City Council approval on second reading is recommended. In 2008 the City and other local taxing bodies completed the last of three years of tax abatement for Tate & Lyle and Fullco Industries. In 2010, the City’s commitment to Ample Supply will begin along with the second year of the Superior Industrial Equipment abatement.

**H. Ordinance No. 2009.49—An Ordinance Amending Title 3, “Business and License Regulation,” Chapter 2, “Liquor Control,” Section 3-2-7, “Number of Licenses,” Subsection A,4, “Class D; Package Goods,” to Remove the Population-Based Limit on the Number of Package Liquor Licenses in the City of Sycamore, Illinois. First Reading.**

Liquor Commissioner Ken Mundy has received an inquiry from Walgreens regarding the possibility of a package liquor license for the store at 1340 DeKalb Avenue in Sycamore. The City Code presently limits the number of Class D (i.e. package) liquor licenses to one for each 3,000 Sycamore residents, as computed by the latest regular or special federal census. By way of background, the special federal census conducted in 2005 set the Sycamore population at 14,866, and the preliminary 2010 decennial census results will not be known until later in 2010. Walgreens is aware that the present population-based restriction would not accommodate their interest.

This ordinance is offered on first reading so the Council, present liquor license holders, and the community can have some discussion about the merits of the present population-based framework. If the Council wishes to depart from that framework in this instance without changing the ground rules permanently, the City Code permits the waiver of the proration of licenses by a three-quarters vote if the applicant “is principally involved in the retail sale of general merchandise.” Walgreens would conform to that definition.

City Council direction is requested. An inventory of all current City liquor licenses is attached for the Council’s reference.

**12. RESOLUTIONS--None**

**13. CONSIDERATIONS**

**A. Consideration of a Revised Lease Between the City of Sycamore and the Sycamore History Museum.**

The initial two-year lease between the City of Sycamore and the Sycamore History Museum for use of the houses and residential garage on the Engh Farm expires on August 31, 2010. In behalf of the Museum board, Michelle Donahoe, the Museum’s executive director, has proposed a long-term lease. Such a lease would secure the significant dollar investment made

by the Museum and its donors in the extensive remodeling of the two houses converted to exhibit and administrative space, as well as the significant in-kind (i.e. labor-free) contributions by many local contractors and organizations during the remodeling process. A long-term lease would also enhance the financial viability of the museum. A more permanent museum home at an affordable rent would appeal to sustaining donors as well as new donors.

In response to the City Manager’s request, Ms. Donahoe has provided an accounting of the improvements completed on the City’s property (see attachment). Not counting the City’s contributions toward the parking lot and driveways, an estimated \$81,000 of “in-kind” labor was donated by local residents for a variety of structural, electrical, mechanical, plumbing, and utility repairs, as well as insulation, painting, carpeting, and other finishes. In addition, roughly \$32,000 was spent outright for contractor work and commodities that went into the remodeling. The Museum position is that a total of \$113,000 was invested in the upgrading of the two houses on the City property.

In considering a fair market rent for the Museum’s use of the Engh Farm buildings, there are no obvious comparables. There are no similar arrangements elsewhere in our locale. Moreover, before the transfer of the property to the City the farm manager who previously occupied the same buildings apparently received a discounted rent in exchange for routine maintenance and other services rendered on the farm prior to its development for residential purposes. So, no fair market rent has been established for the property. The attached draft of a ten-year lease suggests a logical relationship between the value added to the properties and a fair rent over a ten-year period. The underlying assumption is that once the larger and smaller houses were remodeled, and before the Museum moved into the remodeled space, there was a market value for the two houses as independent rentals. A fair market rent of \$700 a month is assigned to the larger house and \$400 a month to the smaller house, or a total of \$1100 a month. Over ten years, such a rent would yield the City \$132,000. The difference between the presumed value of the fair market rents and the Museum’s remodeling contributions is \$19,000. If the Museum owes a minimum of \$19,000 over ten years, an escalating monthly rent sensitive to the organization’s early development might appear as follows:

Year	Monthly Rent	Annual Rent
2010	\$10 (current rent)	\$120
2011	\$50	\$600
2012	\$100	\$1,200
2013	\$150	\$1,800
2014	\$200	\$2,400
2015	\$225	\$2,700
2016	\$250	\$3,000
2017	\$260	\$3,120
2018	\$270	\$3,240
2019	\$280	\$3,360
	Total:	\$21,540

As for other aspects of the proposed lease, a brief summary follows:

1. Utilities. The Tenant pays all monthly utilities (e.g. natural gas, electric, phone and cable) except for the water and sewer charges, as under the present lease. The two

houses are currently on well and septic. The City has already committed to water and sewer line extensions to the houses when the water tower and well construction on the site are completed.

2. Refuse. The Tenant is solely responsible for refuse pickup.
3. Insurance. The Tenant pays the cost of casualty insurance for the leased premises, and shall carry worker comp insurance, loss of rents insurance, and comprehensive general liability insurance, showing the City as an additional insured.
4. Maintenance. The Tenant has the standard obligation of maintaining the premises in a condition of proper cleanliness and orderliness, and in a state of attractive appearance, which would include exterior painting.
5. Common Areas. The City will continue to maintain the exterior common areas (e.g. snow removal on the drives and parking areas; lawn-mowing).
6. Right of First Refusal. In the event the City decides to sell, transfer or otherwise convey the subject property to another governmental entity, then prior to the City's execution of any agreement to sell, transfer, or convey the property the City shall notify the Tenant in writing of the proposed conveyance and the Tenant shall have the right to purchase said property on the same terms and conditions within thirty (30) days of the receipt of the Landlord's notification. In addition, the Tenant has a first right of refusal to lease the property after December 31, 2019 according to the terms and conditions determined by the sole authority of the City Council of the City of Sycamore, Illinois. The Tenant's election to exercise the right of first refusal with respect to continued possession of the property after December 2019 must be made in writing and submitted to the City by certified mail, return receipt requested, by December 1, 2019;

The City Manager requests a favorable recommendation.

## **B. Consideration of an Administration Request for Direction Regarding the FY2010-2011 Fiscal Year Budget.**

In early January of each year, the City Manager has habitually introduced preliminary assumptions about revenue trends and spending priorities for general operations in the coming fiscal year. The assumptions are based on the most current financial information available, and are offered to elicit Council direction as the City staff begins the months-long process of preparing a new fiscal year budget. This year, the timing of this review has been moved up because the revenue trends are more challenging than normal, and the options for addressing these trends may reasonably invite more public discussion. The following background report will provide some in-depth analysis of the outlook for Sycamore's General Fund for the fiscal year beginning on May 1, 2010.

### **General Fund Revenues**

A. Property Taxes. In recent weeks the Council has deliberated upon the most familiar form of local government taxation—the property tax. For the government of the City of Sycamore, this revenue stream represents 15.4% of the FY2009-2010 General Fund revenues, and has been declining as a proportion of overall general revenues since the mid-1990s. Based on the Council's direction of November 16, the general operating portion of the property tax revenue

in 2010 would decline relatively and absolutely when compared with 2009. Allowing for deductions for pension costs, the property tax monies available for departmental spending will decline by \$19,609 in FY1020-2011, whatever the final revenue budget may be. The result will likely be a level tax rate for Sycamore residents and businesses when tax bills are mailed in May 2010, and some further belt-tightening on the spending side of general operations. This result will not in and of itself diminish city services, but it will obviously intensify our focus on the magnitude of offsetting sales and use taxes, state income tax revenue, and other operating revenue streams.

B. Sales and Use Taxes. The City imposes the following sales and use taxes for general operating purposes:

- State Sales Tax. This 1% tax is applied against all retail sales within the City. Retailers send these tax receipts to the state department of revenue which remits the full amount to municipalities after about a two to three month delay. In FY09, tax revenues from this source (\$2,740,500) constituted 24% of actual year-end operating revenues.
- Home Rule Sales Tax. This tax was first imposed in 1996 at a rate of 1/2% and all of the proceeds were deposited in the General Fund. In April 2000 the Council approved a 1/4% increase for capital purposes and the entire increase has since been deposited in the Capital Assistance Fund (Fund 6). In January 2008 the Council approved a further 1/2% increase to partially fund an expanded street Maintenance program along with a 2 cent per gallon gasoline tax for the same purpose. Since 1996, the City has not increased the home rule tax rate for general operating purposes, although the City operating budget (excluding water and sewer) has doubled. In FY09, tax revenues from this source (\$896,435) constituted only 7.9% of actual year-end operating revenues. In the late 1990s, home rule taxes constituted about 6.7% of overall operating revenues.
- Telecommunication Tax. A 5% telecommunication tax became effective on 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. It is collected by the Illinois Department of Revenue and remitted to the City on a monthly basis. In FY09, tax revenues from this source (\$565,000) constituted 4.8% of actual year-end operating revenues.
- Restaurant/Bar Tax. A 2% restaurant/bar tax was approved in May 2002. Aside from support for general operations, the proceeds are also used to fund the debt on a \$4 million capital projects bond (\$200,000 per year). The tax is collected by the City. In FY09, tax revenues from this source (\$779,205) constituted 5% of actual year-end operating revenues, discounting the portion transferred to the 2002 Bond Fund.

The total of all sales and use tax revenues in FY09 were 3% (\$133,830) lower than the total receipts in FY08. The year-end FY10 sales and use tax revenues are not expected to exceed the FY09 level.

C. Shared State Revenue. The principal state-shared revenue is the City's portion of the state income tax (\$1,314,093 in FY09, or 11.6% of the total operating revenues). Receipts from this source in FY09 were 4% (\$53,110) lower than the total receipts in FY08.

In FY09, the combined sales taxes, use taxes, property taxes, and income taxes received by the City constituted about 72% of all annual general operating revenues. The trend in the three largest categories of operating revenue--property, sales, and income taxes--when compared with general operating expenses in recent years is illustrated in the table below:

Levy/Budget Yr.	Total Gen Fnd	Oper Levy	Home Rule Tx	1% Sales Tx	Income Tax	Total Key Rev	% of Gen Fnd
2002/FY04	\$8,015,404	\$1,398,959	\$722,120	\$2,247,894	\$725,100	\$5,094,073	63.55%
2003/FY05	\$8,942,117	\$1,476,125	\$840,918	\$2,707,970	\$913,532	\$5,938,545	66.41%
2004/FY06	\$9,846,826	\$1,514,008	\$1,031,169	\$2,866,500	\$885,442	\$6,297,119	63.95%
2005/FY07	\$10,358,302	\$1,492,738	\$1,174,450	\$2,946,367	\$1,282,199	\$6,895,754	66.57%
2006/FY08	\$11,463,472	\$1,528,278	\$982,121	\$2,871,076	\$1,400,621	\$6,782,096	59.16%
2007/FY09	\$12,085,923	\$1,545,064	\$896,435	\$2,740,500	\$1,314,093	\$6,496,092	53.75%
2008/FY10 (est)	\$12,308,086	\$1,567,631	\$761,970	\$2,384,235	\$1,116,979	\$5,830,815	47.37%
2009/FY11 (est)	\$12,554,248	\$1,548,022	\$784,829	\$2,455,762	\$1,150,488	\$5,939,101	47.31%

At the mid-point of the City's FY2010 fiscal year, the key categories of revenue are lagging significantly behind the mid-point numbers in November 2008. The home rule tax proceeds are down 12.71%; the state (1%) sales taxes are down 9.37%, and the state income tax revenues are off 3.27%.

"Natural" operating revenue (all operating revenues except equity transfers) by April 30, 2010 is projected to just reach the FY08 total of \$11.6 million. The \$500,000 in unique equity transfers made in the first six months of this fiscal year (\$250,000 from the General Fund reserve and \$250,000 from the Hotel/Motel Tax Fund) will bring total revenues to about \$12.1 million at the end of April, or about \$200,000 below the budgeted General Fund revenue level for FY10. That means FY11 will start \$500,000 in the red, not counting any new dollars required to meet contractual wage and salary increases in the General Fund, which are estimated to be about \$428,705 (including health insurance, FICA, etc.) and small inflationary increases in ongoing contractual costs (e.g. central dispatching) and commodity prices (the difference between FY08 and FY09 was about \$132,000). Without further adjustments, the total projected budget shortfall in FY11 is estimated to be approximately \$1,028,000 assuming no overall expenditure increases for training, office supplies, small equipment repair, freight and postage, marketing, office furniture, telephone and radio equipment, etc.

### General Fund Expenditures

What can be done to close the projected shortfall in FY11? Are additional spending cuts possible in the General Fund?

There are indeed a few stones left unturned, but their impact is modest in terms of the overall gap between expected revenues and projected spending obligations. For FY10, the City Manager recommended and the Council approved a total of \$485,000 in spending cuts based on the shifting of ongoing expenses to special and capital funds. The FY10 General Fund reductions were as follows:

- ✓ \$276,000 in spending was shifted from the personnel budget of the Public Works department to the Water and Sewer enterprise funds in FY2009-2010.
- ✓ \$150,000 in annual salt costs was shifted from the Public Works department budget to the Motor Fuel Tax Fund.

- ✓ \$38,000 in grant support was shifted out of the General Fund (Mayor/Council budget) to the Hotel/Motel Tax Fund.
- ✓ \$21,000 in matching sidewalk repair grants was shifted out of the General Fund (Building department budget) to the Capital Assistance Fund (Fund 6).

An additional \$23,219 was slashed from the Fire department budget in a reduction of the expenditures for the department's intern program.

If we carry these adjustments forward in FY11 (which is recommended), an additional \$49,642 in savings can be achieved in FY11 through some management re-shuffling and further cost-shifting. These moves are highlighted below:

- Two small departments—Building/Zoning and Engineering—will be merged. The Engineering department has one city employee--City Engineer John Laskowski—and the Building and Zoning department has three employees—Building Commissioner Lyle Doty and two inspectors. Mr. Doty will retire on May 1. His replacement will become the Director of Building and Engineering and will take on the administrative responsibilities for both functions. There will be some savings in the hiring of Mr. Doty's replacement at a slightly lower salary, but the principal gain will be in the coordination of the many overlapping functions of the two departments. For budgetary reasons, contractual engineering services provided by the consulting firm Municipal Engineering Corporation have been paid by the Engineering department budget but the City Manager administers the contract. This relationship will continue and a significant portion of the annual contract costs for this consulting relationship will be spread to the capital side of the budget (see below).
- The consulting relationship with Municipal Engineering Corporation will be extended into FY11 at the same cost as FY10. The focus will remain street maintenance, and \$50,000 of the consulting costs will be shifted to the Street Maintenance Fund (Fund 30) which has not borne any engineering costs to date.
- The Fire department management will be revised to include a second assistant chief upon Chief Riddle's retirement in May. This move has budget implications but is driven as much by practical considerations. It will assure the presence of a management officer on call or on duty 365 days a year, regardless of vacations, sick leave, or other conflicts that have periodically left the department without a chief on duty or available for emergency callback since the assistant chief position was created in the FY05 Budget. As a result, incident management at structural fires or other emergencies involving a MABAS response will be shouldered consistently by a chief officer. In terms of routine management, one assistant chief would assume scheduling and other administrative functions presently assigned to the lieutenant rank. The other assistant chief would have a sharper focus on operational duties. A similar dual system has functioned effectively in DeKalb for several decades. Another advantage is that the Fire lieutenants will be able to focus more on the supervision and training of their shift personnel on a day-to-day basis.

Chief Riddle announced his retirement to the department in October and a more general announcement was offered to the community by the City Manager in November. Initially, it was determined that a fire chief search would begin with job postings in professional journals and the media in January 2010. As discussion has ensued in recent weeks about the transition to an expanded management capability within the department, the City Manager and Fire Chief have agreed that Sycamore's present assistant fire chief, Mark Kessler, is in the best position to lead the transition in the near term. Assistant Chief Kessler has also been considering retirement, but he has been asked to defer that retirement for two years to serve as Fire Chief in order to train the new assistant chiefs and to work with the IAFF leadership to effectively re-define relationships of supervision and accountability. To invite the best talent available in our region, a simultaneous internal and external search for the two assistant chiefs will begin in late February.

- The position of deputy clerk and the administrative secretary position in the Administration department will be merged into one flexible secretarial position, reducing the combined support from 1.5 FTE to 1.0 FTE. The occasion for this move is the retirement of deputy clerk Bobbie Lundberg on May 1. The City Clerk will continue to have the services of a deputy for 25 hours a week, primarily in the morning and early afternoon hours. The balance of time served by the new full-time secretary position, which will be an AFSCME position, will be split between the Building and Engineering department (three afternoons a week) and the Administration department (two afternoons per week). This secretary will also occasionally fill-in for the Water division bookkeeper while she is on vacation or out of the office, as needed.
- Within the parameters defined by IDOT for Motor Fuel Tax uses, about \$59,901 in annual street maintenance labor costs can be shifted to the Motor Fuel Tax Fund. This would include \$17,654 in salary costs associated with the City Engineer's involvement in annual street maintenance field work and design, and \$42,247 in Public Works labor costs associated with about one-third of the annual base wages of two street division laborers.

The operating budget impacts of the personnel moves outlined above are summarized below:

New assistant chief:	+\$90,934
Savings between present and new fire chief salaries:	-\$1,620
Savings between Bldg Comm salary and new director:	-\$1,787
Shift part of the MEC contract costs to Fund 30:	-\$50,000
Shift part of City Engineer's salary to MFT Fund:	-\$17,654
Shift part of two laborers' wages to MFT Fund:	-\$42,247
Create new secretary; attrition Admin. Sec'y position:	<u>-\$27,268</u>
<b>Total:</b>	<b>-\$49,642</b>

As a result of these cost shifts, **the projected operating budget shortfall is \$978,358**. No other personnel adjustments are proposed, and no new service initiatives are proposed.

### **Addressing the Projected \$978,358 General Operating Shortfall**

The following options are offered for Council review and discussion. In order to refine key budget assumptions in advance of the annual General Fund review in January, direction will be requested at the January 4 Council meeting.

**Option #1. Transfer \$978,358 from the General Fund operating reserve** to cover the entire projected shortfall.

On May 1, 2009 the General Fund reserve represented 40% of the planned FY2009-2010 General Fund expenditures, down from 48.7% in FY09 and 52% in FY06. The budgeted depletion in reserve strength in FY2010 was reported to the Standard & Poor rating agency as the City prepared to issue the 2009 general obligation bonds in September. The opinion of the City's auditor (Siepert & Company) and Standard & Poor's is that the reduction in reserve was an appropriate response to the extraordinary economic decline beginning in mid-2008 and extending through the winter of 2009. However, both the City's auditor and S&P have cautioned the City that the present level of reserve funds in relation to budgeted operating expenditures should not be taken lightly. In fact, it is quite clear that a further, substantial transfer of reserve funds for operating purposes will deprive the City of its recent rating upgrade. This was confirmed in conversation with the City's bond broker last week. At present spreads, a downgrading from the City's current "AA" rating to its former "A+" rating would result in bond rates 70 basis points higher, which would translate to an additional \$630,000 in debt service over the term of the 2009 Series bonds. In this context, a further depletion of the City's reserve capacity is not recommended.

The value of maintaining the City's remaining operating reserves is also heightened by the continuing uncertainty in the regional and national economy. Notwithstanding the gradual increase in equity values, particularly commodities, since late March, the national economy faces, in the words of Ben Bernanke, "formidable headwinds." Locally, the impact of lost jobs and underemployed breadwinners has seriously struck the City's sales tax receipts. Local residents have clearly reduced their discretionary spending and are searching for bargains. So long as this trend continues, it is prudent to consider that the local economy will not rebound until later in the next fiscal year, or beyond. In this context, restraint is probably the best recourse in terms of reserve spending. Once reserves are depleted by uncapped taxing bodies and all other options have been exhausted, the only recourse is to dramatically pump up the property tax. DeKalb recently considered increasing its targeted property tax rate from 60 cents per \$100 EAV to 70 cents per \$100 EAV (a 17% increase in one year), then settled on a rate of .65 per \$100 EAV (an 8.3% increase) on December 14. Sycamore's current rate is 57.7 cents per \$100 EAV and the Council confirmed its intention to hold that rate on November 16.

Finally, each foray into the City's reserves adds a bill to the next year's budget, and likely for several budget years. As noted above, with operating revenues flat, the \$500,000 in reserve transfers in the current fiscal year will not be offset by new revenue. So, the new fiscal year beginning on May 1 starts \$500,000 in the hole, not counting any new revenues that may be necessary to cover the higher contractual wage increases in FY2010-2011.

**Option #2. Transfer \$500,000 from the General Fund operating reserve and find an additional \$478,358 in cost-savings or capital fund transfers** to balance the operating budget in FY11.

For the reasons mentioned above, no further depletion of the City's operating (General Fund) reserves is recommended at this time. The City Manager has outlined a number of new and continuing spending cuts and cost-shifts for FY11. No additional cost-cutting can come without opening union contracts and re-negotiating no-layoff provisions approved by the Council last spring. Cutting services is an option, but the City has never invested in non-essential services so the cuts would go to the meat of the organization's daily shift strength. Unlike private companies, the City can't announce it will only run day shifts out of the Police, Fire, and Public Works departments. It is also likely that local residents would not support cuts in seasonal services that drive overtime costs, such as snowplowing, leaf pickup, etc.

Additional capital fund transfers are problematic. The largest available capital reserves are in Fund 22 (the "Fuel Fund" or Sales Tax Distributive Fund—Fund 22). A significant portion of these reserves are pledged in the next few years to the debt service on the 2009 Bond, until the City's EAV growth returns to its historic pace. More important, a cashing in of Fund 22's reserves in FY11 for operating purposes would violate the development agreements with the two airlines that generate the fund's annual revenue. Putting this fund at risk will jeopardize the City's annual capital program into the future. Smaller reserves can be found in the City's oldest general capital fund, the Capital Assistance Fund (Fund 6), which annually finances the City's replacement vehicles and small equipment (at an average cost of about \$291,000 per year).

**Option #3. Find about \$500,000 in savings in personnel costs through layoffs, attrition, furloughs, etc. and an additional \$478,358 in non-personnel cost-savings or capital fund transfers** to balance the operating budget in FY11.

This is a variation of Option #2 and is problematic for the reasons noted under that option.

**Option #4. Raise about \$375,000 in new revenue from a 1/4% increase in the City's home rule tax and an additional \$603,358 in non-personnel cuts or capital fund transfers** to balance the operating budget in FY11.

The City's home rule sales tax rate is currently ½% below DeKalb's. In our local retail market which blurs the distinction of corporate boundary lines, no one has been heard to say that they shop in Sycamore rather than DeKalb because of that ½% tax difference. The driving force is the quality and variety of the goods and services offered. The portion of home rule taxes going to City operations has not changed since 1996. Raising the rate by ¼% would likely generate \$450,000 in a full budget year. However, under state law, to be effective a change announced by April 1 would not go into effect until July 1, so any change for FY11 would generate new revenue over a ten-month period. In our case, that would be about \$375,000.

The remaining deficit of \$603,358 is very problematic. About \$230,000 could be transferred from the Capital Assistance Fund (Fund 6) without cutting into essential items such as fire hose replacement, plow replacement, etc. The only other available capital reserves are in Fund 22

(the “Fuel Fund” or Sales Tax Distributive Fund—Fund 22). A significant portion of these reserves are pledged in the next few years to the debt service on the 2009 Bond, until the City’s EAV growth returns to its historic pace. More important, a cashing in of Fund 22’s reserves in FY11 for operating purposes would violate the development agreements with the two airlines that generate the fund’s annual revenue. Putting this fund at risk will jeopardize the City’s annual capital program well into the future.

**Option #5. Raise about \$750,000 in new revenue from a 1/2% increase in the City’s home rule tax and an additional \$228,358 in non-personnel cost-savings or capital fund transfers** to balance the operating budget in FY11.

A ½% increase in the City’s home rule tax rate would likely generate \$750,000 in new operating revenue in FY11, and about \$900,000 a year in FY12. In FY11, another \$228,358 could be found (primarily from Fund 6) by deferring vehicle replacements and other small capital purchases funded by the Capital Assistance Fund—the City’s oldest general capital fund that derives its primary income from the ¼% home rule sales tax revenue dedicated in 2000. Catching up with deferred capital needs would take several years, as each year’s prioritized capital needs compete with unfulfilled objectives. However, the cuts would hopefully be temporary and the reserve commitment would be minimal in later years. Since the late 1990s the Council has tried to follow the path of making annual investments in replacement vehicles and equipment rather than hoping for windfalls in better years to catch up. This incremental approach reversed years of neglect in the 1990s and has gradually brought our operating departments to respectable equipment levels over the past decade.

**Option #6. Impose a 5% utility tax.** Municipal utility taxes are imposed on the gross revenues of companies providing electricity, gas, cable television, and telephone utility services within a community’s corporate limits. Utility companies calculate the tax, place it on the customer’s bill, collect the tax, and remit the tax directly to the City on a monthly basis. The City of DeKalb imposes a 5% municipal utility tax. This tax has been avoided in the past because of its significant impact on businesses that are large energy users, such as industrial firms in our midst, and firms we hope to attract to our industrial and business parks. It is difficult to gauge the revenue that might be derived from this source, but something in excess of \$50 per capita would be a conservative starting point. If the 2010 decennial census establishes Sycamore’s population at about 16,000 the total annual receipts would be about \$800,000.

In view of the competitive advantage which Sycamore enjoys in attracting industrial firms because it does not impose a utility tax, and the additional household cost that such a tax would bring to the City’s residents regardless of income, this option is not recommended.

**Option #7. Increase the Telecommunication Fee.** The current fee can be increased from 5% to 6% in .25% increments. Such action requires an ordinance. To become effective by July 1, a change must be made by March 1 in any year. A 1% increase would generate an estimated \$100,000; such a modest gain would not dent the expected shortfall and would be noticed by all local residents.

**Option #8. Transfer One-Half of the Home Rule Tax Receipts from the Street Maintenance Fund (Fund 30) to the General Fund in FY11.** In January 2008 the Council increased the home rule sales tax rate from 0.75% to 1.25% to more aggressively fund street maintenance and repair. This ½% increase will generate about \$900,000 in FY11. Transferring one-half of the home rule tax portion of Fund 30's revenue (\$450,000) would leave about \$687,000 for street maintenance purposes in FY11 (\$450,000 in home rule tax receipts and about \$237,000 in gas tax proceeds).

The balance needed to fund the projected General Fund deficit (\$528,358) would have to come from as yet undefined service cuts or capital reserves.

**Option #9. Service Cuts and "Soft Cost" Cuts.** Under Option #2, it was noted that significant cost-cutting on the personnel side of the operating budget cannot come without opening union contracts and re-negotiating no-layoff provisions approved by the Council last spring. Such re-openings require the mutual agreement of the parties. These contract provisions run through FY11. Cutting services is an option, but the City has never invested in non-essential activities so the cuts would go to the meat of the organization's services. Unlike private companies, the City cannot announce it will only run day shifts out of the Police, Fire, and Public Works departments. It is also likely that local residents would not support cuts in seasonal services that drive overtime costs, such as snowplowing, leaf pickup, special events, etc. Nevertheless, this option needs to be presented so the monetary savings can be weighed against the size of the projected deficit.

Perhaps the best way to portray this option is to list the possible cuts and their budget impact, cafeteria style. The following list is in no particular order:

1. Close Fire Station #2. According to the contract between IAFF Local 3046 and the City, the minimum level of daily staffing is one union lieutenant and 5 union firefighters or 4 union firefighters and two union lieutenants. Extra staffing is applied to Station 1 when available. Each station opens with a minimum of 3 career or union personnel. No change to this system could be made without the mutual agreement of the City and Local 3046. With the commitment to a minimum staffing level of 6, cutting out one station will not reduce the minimum daily operating cost in terms of personnel, although on the occasional days when a seventh person is present at Station 1 the impact of overtime from callbacks might be very modestly diminished. The closing of Station 2 might actually cost the City and its residents when our ISO rating is re-evaluated.
2. Reduce the Leaf Pickup Program by three or four weeks at the front end. This would save about \$20,000. Instead of sending our crews around in early October when leaves are starting to fall, we could wait until most of the leaves are down and make several passes through all the neighborhoods. The savings would come in terms of the wear and tear on our equipment, rather than in personnel costs.
3. Modify Snow Removal Procedures. In FY09 the Street Division had about 1200 hours in overtime from snow plowing operations (1300 hours in FY08). We could cut that number in half and save about \$23,000 (\$38 x 600 hours) if we designated snow routes that received exclusive plowing attention during storm events, and then focus on alleys and minor residential streets in the aftermath of a storm during regular working hours.

4. Reduce the involvement of the Public Works department in special events. In FY09 the Public Works department devoted about 130 hours toward barricading, cleanup and other activities for the Car Show, Pumpkin Festival and various downtown events. Theoretically, this could be cut in half if volunteers could be found for such work, although the efficiency of the operations would be affected.
5. Eliminate Council support for the Chamber of Commerce, the Voluntary Action Center, the DeKalb County Economic Development Corporation, the DeKalb County Community Foundation, and the Downtown Façade Grant Program. Support for these purposes totals \$113,000 annually and the funding is found in the Hotel/Motel Tax Fund, whose proceeds can be used for operating purposes.
6. Eliminate the City's Fire Prevention Program in the elementary schools. In FY10, about \$1,100 in overtime costs is associated with this program.
7. Freeze all management salaries. If the City's management group of 19 received percentage increases identical with those in our three union contracts, the total increase would be \$27,000 in FY11.
8. Reduce the Police presence at special events involving officers on overtime assignment. Some events (e.g. Cinco de Mayo; Car Show) generate additional General Fund income; most do not. If additional special charges for Pumpkin Festival and other downtown events are not on the table, the Police presence could be reduced (although not altogether eliminated in the interest of public safety). This might generate a modest savings of about \$6,000.

**Option #10. Increase the City Property Tax.** On November 16 the Sycamore City Council directed the City Manager to prepare a levy ordinance that would keep the 2009 City tax rate level with, or slightly below, the 2008 City rate (.57759 per \$100 EAV). To raise an additional \$500,000 in property taxes for general operations, the rate would have to climb to .69 per \$100 EAV, an increase of 19.5%. The City of DeKalb recently considered increasing its rate from .60 per \$100 EAV to .70 per \$100 EAV, but settled on a targeted rate of .65 per \$100 EAV (an 8.3% increase). A 19.5% increase in Sycamore's city rate would still require \$478,358 in additional cuts, capital transfers, or new revenue to balance the budget. The last year the Sycamore rate was at or above the .69/\$100 level was in 2005. The impact on the average homeowner would be an additional \$84 in City taxes (if their EAV did not change in 2009). Larger homes and local businesses would pay a higher increase.

If the entire operating budget shortfall of \$978,358 was offset by a property tax increase, the City's proposed levy would have to increase from \$2,624,621 to \$3,602,979 and the rate would increase from .57684/\$100 EAV to .79186/\$100 EAV, a rate increase of 37%. The last time the City rate was at or above the rate of .79186/\$100 EAV was in 2004. At that rate, the average homeowner would pay an additional \$160.39 in City taxes.

### **Recommendation**

The City Manager recommends Option #5. The options listed above are certainly not exhaustive and each could allow for some variation. However, the tools we can use to address the revenue shortfall detailed in this background report boil down to just a few general approaches: we can limit spending, raise new revenue, or both. Option #5 proposes both. Option #5 includes all of the FY10 operating spending cuts and cost-shifts, plus another

\$49,642 in FY11 spending cuts (see page 11), plus a one-time transfer of \$228,358 from the Capital Assistance Fund (Fund 6).

Based on inferences drawn from shopper surveys conducted at several of our larger local retail outlets, anywhere from 20% to 30% of the home rule tax would fall on non-residents. However, whether their homes are within or outside our community it is probably safe to say that few if any shoppers are aware of the difference between Sycamore's present home rule rate (1.25%) and DeKalb's (1.75%), or would be discouraged from shopping in Sycamore if either a ¼% or ½% home rule tax increase was implemented.

The City Manager has opened a conversation about the possibility of a home rule tax increase with the Sycamore Chamber of Commerce, which represents about 470 businesses at this time, many of which are retail businesses. Their voices will be important to consider as we discuss the various options in the weeks ahead.

The Sycamore Council has never been known as a "tax and spend" body. The fiscal conservatism of this and earlier Councils and its insistence on reducing the local property tax burden over the last dozen or more years have been well-documented. If reaching for new taxes was a first impulse, the Council and staff would have discussed the option in January 2008 as the FY09 Budget assumptions were presented. At that time, a hiring freeze was imposed, all three union contracts were opened for re-negotiation, and the level of commodity and contractual services was frozen. A year later, in January 2009, as the world economy slid toward a financial meltdown, the general operating fund assumptions included reserve transfers totaling 4% of the projected operating expenditures and cuts in non-personnel spending totaling another 4%. In the present fiscal year (FY10), one out of every twelve operating dollars is, in effect, borrowed from savings or a capital fund. At this juncture, further cuts and scrimping will not generate enough operating dollars to balance the books. The City cannot reduce its "business." Option #5 is presented reluctantly but thoughtfully after gutting the discretionary spending of the operating departments for several years. One additional option which was not presented above is simply to postpone tough decisions, as the state legislature has been renown in doing. This would not be recommended. It would not reflect the problem-solving disposition of this Council and it would heighten the dilemma facing this organization a year from now.

**C. Consideration of an Administration Request for a Closed Session to Discuss Personnel Matters.**

- 14. OTHER NEW BUSINESS**
- 15. APPOINTMENTS**
- 16. ADJOURNMENT**