

BEMIDJI CITY COUNCIL

Work Session Agenda

Monday, August 24, 2009

**City Hall
Conference Room
5:30 P.M.**




1. CALL TO ORDER / ROLL CALL
2. ANNEXATION DISCUSSION
3. ADJOURNMENT

CONVENE AS THE B.E.D.A.



City Manager's Office

MEMORANDUM

TO: City Council
FROM: John Chattin, City Manager 
DATE: August 21, 2009
RE: Annexation Issues and Recommendation

Our annexation agreement, and the formation of our joint planning entity, are historic achievements for the city and Northern and Bemidji townships. As with most new agreements, the number of issues involved in implementation is unknown until the actual process begins. Although there are likely to be many additional challenges discovered, staff feel compelled to ensure that the council goes into the first of our annexation phases with full knowledge of the challenges already contemplated.

Our agreement calls for the phasing in of property tax revenues over 5 years. However, in reality it is a 6 year process, as no property tax revenue would be forthcoming in the first year of annexation. Finance Director Ron Eischens has calculated total expected revenues ranging from \$8,000 in the first year to \$281,640 by 2015. Our challenge is to provide expected services during these initial 6 years with an average of just \$132,580 per year.

Here are just some of our anticipated expenses:

Parks

Algoma Park is in Northern Township and included in the first annexation area. This 7-acre park will require maintenance and updating of unsafe and/or dilapidated equipment. The cost for dealing with equipment is estimated at \$30,000. Additionally, current staff would be unable to provide maintenance for this park. Adding needed seasonal staff would cost another \$10,000 annually. Additionally, Northern Township has suggested that they may expect the city to actually pay them to acquire this park. We obviously have no capacity to pay for park land in any of the annexation areas. The burden of improving and maintaining the parks alone will be a challenge.

Police

A 9% increase in roadway mileage will mean additional costs for patrol. Obviously, we could cut back on current patrols to accommodate this added expense but there will still be an expectation that some patrol is provided. Our Community Service Officer will also

be impacted by additional "issues" that these areas will present. Continuing to provide current service levels would require approximately \$77,000 in additional funding.

Building Official

Additional cost associated with building code and rental ordinance enforcement is not a budget issue. Additional services required would be funded through additional charges.

Streets

The most onerous challenge with annexation is providing for street improvement and maintenance. It is estimated that bringing annexed streets up to city standards would cost approximately \$1.7 million. Although we would not have to do this immediately, the long-term expectation is that these improvements would be made. We would also be facing an additional \$49,300 in annual maintenance costs for plowing, patching, grading, and sweeping.

Other

Other costs would include administration, storm water maintenance, and refuse collection. Many administrative related costs are "soft" and difficult to objectively calculate. For example, City Finance Director and City Attorney time spent on annexation is simply absorbed into their current budget amounts.

Bottom Line

Total estimated annual maintenance costs in the initial annexation areas would be \$154,300. If needed capital improvements are considered, they would amount to \$346,000 per year over 5 years. Therefore, for planning purposes, we can expect expenditures ranging from \$154,300 to \$500,300 annually. This compares to average annual revenues of \$132,580 during the initial 6 years and somewhere around \$300,000 annually after that.

Without additional construction in the annexed areas, to build more tax capacity, we will likely have to spread the added costs over our entire tax base. Additionally, the first annexation phase will provide a minimal amount of development land for that new construction. We would also have to deal with the expectations of our new residents. The townships and city staff believe that our new residents will have an expectation of increased services to go along with their increased tax burden. The reality is that we will not have the capacity to provide any additional services until the fiscal outlook for cities improves.

My initial reaction to this fiscal dilemma was to suggest that we postpone annexation for at least a year so we could see how we are treated during the next biennium by the state. However, we can already anticipate that cities will be part of any solution to a \$6 billion state deficit in the next biennium and it is extremely unlikely that we will be recovering any lost LGA in the foreseeable future. The bottom line is that we are on our own to deal with any additional costs that we may incur. It is also obvious to me that any delay will not improve the annexation picture.

I would suggest that, twenty years from now, our phased annexations will appear to have been in the best interests of the city and its residents. However, there will be significant pain in the short term to accommodate these agreements. If the council is willing to maintain our current revenue stream by recovering lost LGA, we will do our best to provide citizens with no less than the services they are currently being provided, even with the additional responsibilities. If the council is not looking to recover LGA dollars, I cannot possibly recommend annexation to the detriment of our current residents. More or maintained services for fewer dollars has been our mantra for the last few years. We no longer have the capacity to absorb additional burdens within our restrictive budgets. If annexations occur without maintaining our revenue stream, the council must be prepared to prioritize services and make significant service reductions to existing and future residents.

**CITY OF BEMIDJI
STATISTICAL/FINANCIAL INFORMATION
ANNEXATION AREAS**

Description	2010	2015	2020	Total
Population	900	684	844	2,428
Households	245	328	309	882
Acres	1,203	1,289	2,666	5,158
# of Parcels	403	465	660	1,528

PROJECTED REVENUE	Property Tax	Storm Water	Cable Franchise	Gas/Elec	PEG	Rural Fire	Total
2010 - yr of annexation	-		10,000	8,000	2,000	(12,000)	8,000
2011	3,500	29,000	10,000	8,000	2,000	(12,000)	40,500
2012	58,000	29,870	10,000	8,000	2,000	(12,000)	95,870
2013	115,000	30,766	10,000	8,000	2,000	(12,000)	153,766
2014	176,000	31,689	10,000	8,000	2,000	(12,000)	215,689
2015	241,000	32,640	10,000	8,000	2,000	(12,000)	281,640

PROJECTED EXPENSES

Capital Needs	Annual Amount
Road Maint/Improvement Costs of \$1.7 million over 5 yrs	340,000

Park safety improvements - one time 30,000

Operational Budget Needs

Streets

Overtime & supplies 49,300

Police

Expanded CSO Officer duties/Part time 12,000

Expanded property coverage area by 15% request 1 additional officer 65,000

Building Dept

Additional time for rental inspections Break Even

Parks

Additional Seasonal Employees 10,000

Other

Storm Water Maintenance 13,000

Refuse overtime/supplies 5,000

CITY OF BEMIDJI
PROPERTY TAX REVENUE PROJECTIONS
FOR 5 YEAR ANNEXATION RING

(Assume 3% growth in tax collections after 2011)

Description	Bemidji Township	Northern Township	Total
2008 Tax Capacity - 5 yr "ring"	215,219	304,411	519,630
Projected Tax Capacity in 2011 assuming 1% annual growth	221,740	313,635	535,375
Projected City Tax Rate in 2011	40%	40%	40%
Projected 2011 Total Tax Collections	88,696	125,454	214,150
Payment to Townships for:			
Phase in difference in tax rates	(15,289)	(24,059)	(39,348)
Tax Sharing Agreement - 80%	(70,957)	(100,363)	(171,320)
Yr 1 Projected 2011 City Tax Revenue	2,450	1,032	3,482
Projected 2012 Tax Collections	91,357	129,218	220,575
Payment to Townships for:			
Phase in difference in tax rates	(11,811)	(18,586)	(30,396)
Tax Sharing Agreement - 60%	(54,814)	(77,531)	(132,345)
Yr 2 Projected 2012 City Tax Revenue	24,732	33,101	57,833
Projected 2013 Tax Revenue	94,098	133,094	227,192
Payment to Townships for:			
Phase in difference in tax rates	(8,110)	(12,762)	(20,872)
Tax Sharing Agreement - 40%	(37,639)	(53,238)	(90,877)
Yr 3 Projected 2013 City Tax Revenue	48,349	67,094	115,443
Projected 2014 Tax Revenue	96,921	137,087	234,008
Payment to Townships for:			
Phase in difference in tax rates	(4,177)	(6,572)	(10,749)
Tax Sharing Agreement - 20%	(19,384)	(27,417)	(46,802)
Yr 4 Projected 2014 City Tax Revenue	73,360	103,097	176,457
Projected 2015 Tax Revenue	99,828	141,200	241,028
Payment to Townships for:			
Phase in difference in tax rates			-
Tax Sharing Agreement			-
Yr 5 Projected 2015 City Tax Revenue	99,828	141,200	241,028

2010 Annexation - Bemidji Township

Paved Streets	Segment	Length	Rating	Comments	Expenditures within next 5 years	Picture
Mag Seven Ct. SW	city limits to end of road	0.37	9.65	good condition		
Mikrantip Rd. SW	Jefferson Ave. to Mag Seven Ct.	0.13	9.65	good condition		
Kalee Ct. SW	Mikrantip Rd. to cul-de-sac	0.25	9.55	good condition		
Lake Ave. SE	1st St. SE to Roosevelt	0.49	7.12	needs reconstruction - federal funds coming 2011?		
Yellowhead Road	Wee Gwaus to 18th St. SW	0.75	4.1 - 6.1	first 1300' is poor-marginal condition, needs reconstruct	\$280,000	1,2,3
Jefferson Ave. NW	5th St. NW to Country Ln NW	0.52	5.22	variety of conditions, will need mill and overlay	\$137,280	4,5
18th St. SW	Yellowhead Rd. to Lakeview Dr.	0.51	5.0 - 7.3	most is in fair to good condition, will need some work	\$100,000	6
Lakeview Drive SW	Rako St. to 18th St. SW	0.24	3.18	some work has been done	\$126,720	
1st Street SE	Lake Ave. to Little Norway	0.49	1.81	poor-marginal condition, will need reconstruct	\$258,720	7
	Total new paved miles:	3.75			\$902,720	

Gravel Streets	Segment	Length	Comments	Cost to Pave	Picture #
3rd Street SE	Lake Ave. to dead end	0.25	Trees need to be trimmed	\$89,760	8
5th Street SE	Lake Ave. to dead end	0.11	No plow turn around area, does township plow?	\$39,494	9,10
7th Street SE	Lake Ave. to dead end	0.14	No plow turn around area, ends at Hope House	\$50,266	11
Miles Ave. SE	city limits to P. B. Drive S.	0.41	city portion is paved, township portion is gravel	\$147,206	12,13
Stoner Ave. SE	city limits to dead end	0.08	gravel is very narrow, looks like driveway, vacate?	\$28,723	14,15
Dow Ct. SW	Yellowhead Rd. to dead end	0.08	no turn around area, does township plow?	\$28,723	16
Pleasant Ct. SW	Yellowhead Rd. to dead end	0.21	potholes, dirt, not much gravel, who plows?	\$75,398	17
Zane Lane SW	Pleasant Ct. to dead end	0.06	how is this a road? Serves as a driveway to 1 home.	\$21,542	18
Gregg Ct. NW	Jefferson Ave. loop	0.28	no issues	\$100,531	
	Total new gravel miles:	1.62		\$581,645	

Reconstruct existing bituminous road = \$100/lineal foot.
Pave existing gravel road = \$68 foot

Parks Annexation Discussion

Algoma Park - approximately 7 acres in Northern Township (Minnesota Avenue and Algoma St. NW)

Current Amenities:

- Tennis Courts (2)
- Basketball Court
- Horseshoe pits
- Picnic Area
- Volleyball Court
- Baseball Diamond
- Picnic Area

The park needs updating and/or replacement of many of the amenities. The courts lack a playsurface, but more immediate is the lack of nets on tennis and sand volleyball courts, missing backboard on the basketball court. The benches and picnic tables need to be replaced – due to rotting and lack of maintenance. No garbage cans or dumpster is on-site, nor any facilities. The playground – has a fall surface, but unsure of the depth – additional fall surface should be added as well as borders. The chains and swing seats would need to be replaced as the links are almost worn through, which presents a safety issue. The ball field is in disrepair – weeds growing on the infield/benches also need to be replaced.

Overall the park needs major updating to ensure that safety guidelines/standards are met. The cost for these upgrades is approximately: \$30,000 for the bare minimum equipment (benches, picnic tables, goal and backboard, tennis and volleyball nets, garbage cans, playground surface and replacement of swings.

This does not include the labor to install/repair –

The addition of park would also require an additional seasonal park maintenance position. The current staffing levels would not have the ability to properly maintain (mow, weedwhip, garbage pick-up etc) on a daily basis. Additionally, this park has features that would require additional time – including the sand volleyball court, baseball field, and playground inspection.

The cost for a seasonal parks worker - \$10,000



MEMORANDUM

TO: Mayor and City Council and John Chattin
FROM: Alan R. Felix, City Attorney
DATE: August 19, 2009
RE: Timing of Phase I Annexation/Ability to Postpone

With the current economic downturn continuing to impact City finances and, particularly, the proposed 2010 Budget, a frequently asked question is "what is the City's ability to postpone or delay annexation of the Phase I properties under the Joint Resolution for Orderly Annexation?"

There certainly is the expectation (of the Townships and their residents no doubt) that the City Council will not hesitate to proceed with each phase of annexation as soon as the respective eligibility dates occur. However, the wording of the Resolution (Paragraph 4.C.) is that each phase of the Orderly Annexation Area (OAA) shall be annexed **"at any time after"** the date stated for that phase. Consequently, it is my opinion that January 1, 2010, the first date or opportunity respecting Phase I, is simply an "eligibility date". In other words, actual annexation can occur any time after that date, but must occur, if it's going to occur, before the Resolution/Agreement is otherwise set to terminate with the City's annexation of the Phase III properties after January 1, 2020.

Recall that the whole idea of phasing (as stated in Paragraph 4.A.) is to "benefit the City by reducing the financial risk of extending core facilities and municipal services into the OAA by extending such facilities all at one time." Of course, no one foresaw the current severe economic downturn, such that even the initial phase of annexation alone could very well create financial risk and crisis to/for the City.

In trying to get your arms around the potential financial impact, also recall from the wording in the Resolution that annexed properties shall be "entitled" to the same services provided to "similarly situated properties" within the City. In other words, the City will not only be assuming responsibility to deliver the level of existing services now provided by the Township(s), but will be expected to respond to requests for services or extension of services at a level(s) enjoyed by current City residents. What "similarly situated properties" exactly means is itself a good question. It is a phrase which certainly may lend itself to varying interpretations! Other City Departments will be independently advising you of existing conditions respecting the Phase I properties/areas, as well as the anticipated and/or estimated costs for delivery of City services.

When you're considering "timing" issues, also recall from the Resolution that to be able to levy against these annexed properties in the year they are annexed, the annexation must be completed prior to August 1st of that year. I'd estimate that it will probably take in the neighborhood of 60 days to complete annexation. To initiate annexation, the Resolution calls for the City to pass a resolution and to file the same with the Office of Minnesota Planning (or its successor agency). That Office within thirty (30) days of receipt of the City's resolution, must review, make any comment(s), and issue an Annexation Order. Upon our receipt of that Order, we must in turn provide a copy to the Beltrami County Auditor. Again, barring unforeseen delays, I'd estimate 60 days from start to finish. To be done comfortably by August 1, the process should arguably be initiated no later than the third week of May.

Then there are the matters of phasing of property tax distribution and payment equalization requirements, both of which impact "timing", and here's why. First payment equalization, the City is required to "proportionally equalize" any difference that may exist between the tax rate of the City and the tax rate of the Township(s) (based on the tax rate on property already within the City in the same tax classification). I won't try to explain the mechanics of how this is accomplished, but the outcome is that owners of annexed property should only pay at an increased phase-in rate in substantially equal proportions over a period of five (5) years. In other words, a newly annexed property owner should not be paying at the full City rate until the fifth year after the year of annexation.

As to distribution of property taxes collected, recall that the allocation scheme is over 5 years as well. The Resolution calls for the Township to receive 100% of the property taxes in the year of annexation (per their levy in the preceding year). In the second year (2011), the Township receives 80% of the taxes (levied by the City in 2010); in the third year (2012), they get 60%; in the fourth year (2013), 40%; and, in the fifth year (2014), 20%. Only in the sixth year (2015) will the City begin receiving 100% of the property tax levy.

So, hypothetically, if the City proceeds to annex Phase I properties on January 2, 2010, that property will likely come into the City on or by approximately March 15, 2010, after which date the City will be solely responsible for delivery of services. And, say an annexed property pays \$100 in Township taxes in 2010, but if it was in the City the taxes would be \$200. So, in 2010, as a result of annexation, the City collects that \$100 which is then paid over to the Township. Then in the fall of 2010, the City levies against that property the sum of \$120 (the Township rate plus one-fifth the difference between our respective rates). In 2011, the City collects the \$120, but pays over \$96 to the Township (i.e., 80%). Net effect, in the first two years of/after annexation, the City sees a return of \$24.

Following this scenario, which does improve by inverse proportionality, the City sees a return of \$56 in 2012 (60% of \$140, or \$84, goes back to the Township). So of \$360 in taxes collected over the first three years after annexation, the City realizes a total return of \$80 (approx 22% of the taxes collected under this hypothetical example).

This scenario is repeated in each phase of annexation, meaning that it will be 2025 before the City begins receiving the full property tax generated by all three phases in the OAA.

Another variable that has received little attention is that with the annexation of the Phase I properties, Paragraph 4.B. of the Resolution calls for the City to initiate a proceeding to detach four (4) parcels which would otherwise be situated in Bemidji Township (these are "islands" of the City surrounded by Township parcels). If the City does not immediately exercise the ability to annex Phase I, the detachment is effectively postponed as well. The Township's position as to the corresponding delay or impact to detachment has not been ascertained.

I'd be remiss if I didn't address a question raised by some as to whether a decision to wait, delay or postpone annexation will negatively impact the joint planning effort under the JPB (created and administered under a joint powers agreement between the same three entities). Specifically, whether a decision not to immediately annex in 2010, will or would be reason for the parties to terminate or dissolve the JPB? Simply stated, the two efforts were initially conditioned on the other being adopted simultaneously. That occurred as agreed, and the JPB is now independent from the trappings of the joint annexation resolution. However, looked at in the reverse, if this was a unilateral decision by the City to withdraw from the JPB, I'd predict repercussions from the Townships' in terms of their continued participation under the annexation resolution!

CONCLUSION

Postponement is not necessarily an accurate characterization of a decision not to immediately exercise the ability to annex Phase I of the OAA at the first opportunity (date) under the Resolution. The City's decision should not be driven by an expectation, rightly or wrongly, that the City will not hesitate to exercise that ability at the first opportunity presented. No doubt, the Townships and impacted Township residents likely desire predictability as to what the City will do and when (for Township budgeting and property tax reasons most obviously).

But as to the matter of timing, much more important is the thought and preparation that goes into the why, when and how of the decision to proceed, particularly as the same will impact our ability, financial and otherwise, to deliver the required and/or expected services. Again, the issue of detachment aside, the City's decision to exercise annexation of a given phase is defined in gross parameters by the initial eligibility date and the effective termination date of the Resolution, and, more importantly, is shaped by the other "timing" components within the Resolution as the same impact service delivery and the fiscal circumstances that are predicted to result from that action.



MEMORANDUM

TO: City Council

FROM: Rita Albrecht, Community Development Dir.

DATE: August 3, 2009

RE: 2010 Annexation Discussion

As the Council considers the City's options for 2010 annexation and beyond, this background on the current land uses in the Phase I area may help to clarify some opportunities and expectations that come with annexation.

The Phase I area includes approximately 900 people, 250 households, more than 50 commercial properties, an estimated 100 or more rental units, and approximately 1,203 acres of land area with a variety of zones and uses. Several parcels are in public, institutional or religious ownership and are tax exempt. A map depicting the five Phase I areas (Labeled 1-5) is presented for review and for the purposes of discussion.

Zoning

Commercial zones located in Phase I areas include:

- B1 Low Density Commercial (min. 2 acres)
- B2 General Commercial (min. 7,500 sq. ft.)

All Phase I areas have at least one residential zone, including:

- R2 Suburban Residential Unsewered (min. 2 acres lots; this classification recognizes the desire to maintain the rural nature of these areas and they are not expected to be served with utilities in the near term)
- R3 Suburban Residential Sewered (min. 22,000 sq. ft. lots or about half an acre; properties in this district may not be currently served, but they are identified as potentially being served with utilities)
- R6 Multiple Family (min. 2 acres in unsewered areas and 6,000 sq. ft. in sewerred areas)
- MH Manufactured Housing Park (2 acres min. for the Park and 5,000 (net) sq. ft. per mobile home space)

Area 1

Continued development in this area can be assumed based on the availability of utilities and vacant property. There are opportunities for new commercial development and redevelopment on 5th Street and along Mag-Seven Court. The (R3) residential areas are nearly fully developed except for a few lots south of Deep Rock Townhomes, a large parcel on the southern tip of Area 1 and the R6 area north of 5th Street. Residents may have an expectation that utilities will be extended to businesses and residences in this annexation area because the mains are already in place.

Area 2

There may be opportunities for additional residential development in Area 2, which is zoned entirely for residential use, but more than half of this area is also regulated by the Shoreland zone and the Sensitive Area zone. By their definition, these zoning designations will limit development. Properties in these zones will require additional review and generally additional conditions for development. The City's comprehensive water plan identifies a future transmission main that will continue from South Lake Irving Dr, follow Yellowhead Road, 18th Street and Lakeview to connect with existing services at Rako Street. A challenge with extending utilities around the loop is the large lot development dictated by the Sensitive Area and R3 zones.

Area 3

The commercial area along County Road 50 is zoned B1 (minimum 2 acre lot). Although there are utility services very near this area, they are on the other side of the highway and railroad and not accessible. Also, wetlands reduce the net area available for development in this area. Area 3 includes an R2 district, which, as noted before, is meant to maintain a large lot, rural character and there are no plans for future utilities in this area.

Area 4

This area is zoned for residential use (R3 min. 22,000 sq. ft.), except for one parcel on the SE corner of Lake Ave. and First Street E, which is B1. The City's Fire Substation is located in this residential area. Water and sanitary sewer mains are installed along a portion of Lake Ave. Because of the availability of utilities and large tracts of land in this area, it is reasonable to assume this area could support additional residential development over the long term. Once again, current zoning supports large lot development.

Area 5

The R3 residential district in Area 5 is (mostly) fully developed as is the B1 commercial district. The area is served by City water because of the Kummer Landfill water project. Water and sanitary sewer are installed in Birchmont Drive. Residential areas and businesses on Bemidji Ave. would benefit from the installation of sanitary sewer because of poor drainage and/or marginal septic systems in the area.

Other Considerations

Generally speaking, commercial development, and the need for central services, tends to occur along corridors. A proposal for additional development on the north side of Anne Street is expected to result in a request for additional utility extensions into the township. The area north of Anne Street is not slated to be annexed until 2020. On Washington Ave South, the Council voted not to install utilities during street reconstruction due to financial constraints and the lack of participation by Bemidji Township. While it is perhaps a missed opportunity, the City currently does not have the resources for this project nor would we be able to assess the affected properties. The Washington Ave S area is slated to be annexed in Phases II and III: 2015 and 2020.

2010 ANNEXATION OVERVIEW MAP

