



Finance Office

MEMORANDUM

TO: Honorable Mayor and City Council
FROM: Ron Eischens, Finance Director &
John Chattin, City Manager
DATE: August 31, 2010
RE: 2011 City Budget

Background

Based on Council discussion on August 23rd, staff prepared the following alternatives to reducing the 2011 property tax levy. The amount of savings and levy impact are summarized on the attachment.

Reduce BREC Capital Replacement funding – Funding for major capital repairs, while usually an unknown quantity, is financially prudent to plan for. In the last several years the City has experienced major repairs to City Hall (HVAC) and to the City Arena (ice plant). A portion of the funds to cover these costs were previously set aside.

Much of the BREC equipment and building are covered by short term warranties. Significant items needing future replacement include heating/air conditioning systems, roof and technology systems. Other less costly items needing replacement consist of carpeting, furniture and fixtures. As finances allow, the budget for this item could be increased over time, as useful lives of the building components become clearer. It is also important to have some funding as a possible safeguard for unexpected losses.

Utilize Liquor Store Profits – Currently \$238,000 of liquor profits are utilized to subsidize the property tax levy. An additional \$225,000 of profits could also be available, assuming sales and margins remain similar to current operations.

In 2010 the Council budgeted \$183,000 to cover BREC operating costs while 2011 estimates increased this amount to \$300,000. Liquor profits could be used to cover some or all of the \$117,000 increase. However, doing so eliminates the city's ability to use these profits for other purposes and reduces our overall city reserves.

Defer future capital expenditures – The following capital items could be deferred or eliminated from the schedule:

- Fire Department Ladder Truck – Defer replacement for 5 years until 2019. Maintenance costs would likely increase anywhere from \$10,000 to \$20,000 per year.
- Removal of old railroad trestle bridge – defer until alternative funding becomes available. No immediate impact outside of aesthetics.
- Defer Elliot Road paving – incorporate this with a Northern Township project utilizing annual street funding dollars for the City's share.
- Defer funding for fire substation – We are currently renting a substation on the southeast side of town at a very favorable rate. Although long term planning may be more difficult, renting for as long as possible would certainly reduce our costs. A long term lease could be offered to make planning easier and ensure stable costs.

Refuse fee increase – A rate increase of \$1 per canister per month will generate an additional \$27,000 in refuse profits.

Eliminate Full-Time Firefighter position – Fire department services were discussed as a possible levy reduction. The fire department has 7 full time firefighters and a fire chief on staff.

Average firefighter salary and benefits are \$65,000, of which 44%, or \$28,600 is reimbursed by the Rural Fire Association, resulting in a net cost per firefighter of \$36,400. A reduction of staff would cost the city approximately \$13,400 in unemployment costs the first year, meaning a net savings of \$23,000 the first year and \$36,400 each year thereafter.

How many positions we could reduce depends upon the reduced level of service the council is willing to accept. We do not want to jeopardize the \$47,500 (city's share) of airport ARFF payments. Having staff reductions could impact:

- Routine equipment/building/vehicle maintenance and repair;
- Ability to provide public education activities;
- Number of fire safety inspections that can be completed;
- Number of experienced firefighters responding on the first out vehicle;
- Response time of the first vehicle out;
- Ability to provide emergency medical services; and
- Could lead to a reduced ISO rating resulting in higher insurance premiums. This may be offset by adding 3 volunteer staff for every full-time staff reduction.

SUMMARY

The attachment summarizes the savings and levy reductions of the items discussed above. The objective would be for the council to select which of the reduction options, if any, they would like to implement. The firefighter and liquor store surplus item quantities are open to the council's wishes, i.e. one or more firefighter positions and varying amounts of liquor surpluses. Every 1% of increase or decrease to the levy impacts the average homeowner approximately \$6 per year.

It is staff's recommendation that the levy be slightly higher than what is needed, creating some surplus. We fully expect to have additional revenue reductions before the end of 2011 and any proactive measures we can take to minimize the impact of those reductions now is prudent financial planning.

After considering this information, the council needs to determine a tax levy you can support. If there is any additional information you would like, please contact staff prior to the work session.

City of Bemidji
2011 Levy Reduction Options

	<u>Amount</u>	<u>Levy Impact</u>
Levy Increase to Fully Fund Budget	<u>\$ 480,082</u>	<u>13.0%</u>
Options for Reducing Levy (\$36,900 = 1%):		
• Reduce BREC Capital Replacement funding	\$ 100,000	2.7%
• Increase refuse fees by \$1 per month	\$ 27,000	0.7%
• Eliminate F/T Firefighter position – each position	\$ 23,000	0.6%
(Savings of \$36,400 each in 2012 and beyond)		
• Defer purchase of Ladder Truck until 2019	\$ 97,000	2.6%
(Savings include adding \$15,000 for annual maintenance)		
• Defer Elliot Road paving until coordinated with Northern Township – fund with annual street dollars	\$ 20,000	0.5%
• Defer removal of old railroad trestle bridge	\$ 20,000	0.5%
• Utilize Liquor store (city) surplus (choose an amount)	\$ 36,900	1.0%
• Defer fire substation until current rental is no longer available	\$ 44,800	1.2%