

# **BEMIDJI CITY COUNCIL**

## **Work Session Agenda**

**Monday, April 13, 2009**

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



1. CALL TO ORDER / ROLL CALL
  
2. YEAR 2008 FINANCIAL REVIEW
  
3. BUDGET AND STREET LIGHT ISSUES
  
4. AJOURNMENT



City Manager's Office

# MEMORANDUM

**TO:** City Council  
**FROM:** John Chattin, City Manager  
**DATE:** April 13, 2009  
**RE:** Budget and Street Light Utility Issues

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I have attached the original budget reduction strategies adopted by the council and another spreadsheet with the street light utility fees removed. The sheet without the streetlight fees reflects a cumulative deficit of \$161,514 by the end of 2010. More importantly, the deficit for 2010 is \$265,455 and we would be starting our 2011 budget \$265,455 in the hole, without any COLA or other allowances for increased costs. Not only would we be losing any cushion for unanticipated costs, we would be restricting ourselves to 4 years of continuous cost reductions while having significant tax increases.

With or without the street light fee, we are okay for 2009, as under the proposed billing scenario, we would not receive any fees until 2010 anyway. However, we either need the fees in 2010, and beyond, or levy limits would have to go away to allow for a 5.3% levy increase to offset the \$161,514 cumulative deficit or an 8.6% levy increase to make up for the \$265,455 annual deficit in 2010.

After cutting expenses in 2009 and finding over \$500,000 in additional cuts for 2009 and 2010, I am a little concerned that the council would anticipate us finding further reductions. We have done our best to reduce expenses as much as possible with minimum impacts to services. However, further cost reductions will have a significant impact on services as personnel would have to be reduced. If that is the choice the council makes, I stand ready to make recommendations for those reductions. Perhaps the council would like to discuss those possibilities at a work session?

It should also be noted that only 6% of the proposed street light utility fee would come from current tax exempt property. A much lower number than anticipated. Therefore, the reality is that a tax increase would have an impact similar to the fee except that the lower valuation properties would pay less of that increase. Perhaps a better idea? Obviously, levy limits would again impact any plan for higher levies.

From a levy perspective, we will need a 7.8% levy increase in 2010 just to cover the special levies, i.e. LEC lease, PERA aid, street improvement bonds, public works facility bonds, and relief association shortage. If levy limits stay in place, and the council levies the maximum 3.9%, we would have a total increase of 11.7%. If levy limits go away, a total increase of 16.4% would cover the 2010 shortage and special levies. This is not a pretty picture. Bear in mind however that the governor's LGA cut for 2010 alone would require a 21.8% levy increase to make up for it.

The point is that there simply are not any "painless" options left. Staff are not holding back any significant budget cut possibilities. We need to either impose fees, increase taxes, or cut services. These are all policy decisions that the council must wrestle with. Staff are ready, willing, and able to deal with whatever option the council chooses. However, a choice does need to be made.



**City of Bemidji**

**2009 Budget Reduction Strategies without a Street Light Utility Fee**

	<b>Actions Implemented</b>	<b>Implementation Date</b>	<b>2009 Budget</b>	<b>Revised Budget</b>	<b>2009 Increased Revenue/Savings</b>	<b>2010 Increased Revenue/Savings</b>
1	Reduce overtime by 50% citywide	01/01/09	286,500	143,250	143,250	143,250
2	Establish city dog kennel	01/01/09	18,000	8,000	10,000	10,000
3	Amended city hall cleaning contract	02/01/09	19,809	10,730	9,079	9,904
4	Amended public works cleaning contract	03/01/09	15,468	8,028	7,440	8,938
5	Increased township fire contribution	01/01/09	265,346	325,378	60,032	60,032
6	Increased rental license revenues	01/01/09	25,000	40,000	15,000	15,000
7	Copier purchased under budget	03/01/09	16,000	11,000	5,000	0
8	Terminate meter reading contract	04/01/09	25,000	6,250	18,750	25,000
9	Contract for prosecutions/retain support staff	03/01/09	122,130	166,568	(44,438)	(44,438)
10	Public Works Director position savings	07/01/09	80,200	72,200	8,000	12,000
11	Reimbursement for school resource officer	01/01/09	0	28,000	28,000	28,000
12	Defer Job Classification Study until 2011	01/01/09	12,000	0	12,000	0
13	Eliminate comp time for exempt employees	03/01/09	50,000	8,000	42,000	50,000
14	Eliminate GIS intern	06/01/09	15,000	6,250	8,750	15,000
15	Eliminate Community Development intern	01/01/09	3,000	0	3,000	3,000
16	Eliminate Engineering temporary employee	01/01/09	9,000	0	9,000	9,000
	<b>Subtotal</b>				<b>\$334,863</b>	<b>\$344,686</b>
	<b>Actions Recommended</b>					
17	Former JEDC funds to Comm Development	01/01/09	0	20,000	20,000	20,000
18	Purchase 50% of police in-car computers	01/01/09	80,000	40,000	40,000	0
19	Reduce police training center renovations	01/01/09	15,000	5,000	10,000	0
20	No COLA for 2010	01/01/10	0	0	0	0
21	Implementation of Administrative Fines	07/01/09	0	20,000	20,000	40,000
	<b>Subtotal</b>				<b>\$90,000</b>	<b>\$60,000</b>
	<b>Total Increased Revenue and Savings</b>				<b>\$424,863</b>	<b>\$404,686</b>
	Governor's Proposed LGA Reduction				(320,922)	(670,141)
	<b>Total Budget Impact</b>				<b>\$103,941</b>	<b>(265,455)</b>
	<b>Cumulative 2010 Budget Impact</b>					<b>(\$161,514)</b>

# MEMORANDUM

**TO:** Mayor and City Council  
**FROM:** Ron Eischens, Finance Director *RE*  
**REVIEWED BY:** John Chattin, City Manager *JC*  
**DATE:** April 13, 2009  
**RE:** 2008 Year-End Financial Update

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Attached are the 2008 year end financial results for various city funds including a city wide summary. Although subject to audit, any adjustments should be minor. The audit report will be presented to the Council in July. The attached exhibits are summaries. If you desire more detailed information, please contact me.

Operating results caused an overall decrease in cash reserves but the City ended the year with adequate reserves. The City did not experience cash flow shortages during the year and did not borrow to cover unanticipated needs.

There are six attachments as follows:

- **Exhibit 1** - General Fund
- **Exhibit 2** – City wide fund summary
- **Exhibit 3** – Liquor Operations
- **Exhibit 4** – Arena Fund analysis
- **Exhibit 5** – 10 year history of property values, tax rates and general fund balances
- **Exhibit 6** – Bond rating summary

## EXHIBIT 1 – General Fund

General Fund expenses exceeded revenues resulting in a deficit of \$637,500 representing 7% of its budget. Approximately half, or \$332,629, of this deficit was budgeted. It has been over ten years since the city had negative results in the General Fund. Primary causes of the deficit are:

- \$208,000 of 2007 fire truck purchase carried over to 2008
- \$60,000 for settlement of 2007 police patrol contract paid in 2008
  - These two items were originally budgeted in 2007, but due to timing delays were not paid until 2008. Timing issue made 2007 budget results more positive.
- \$230,000 in unallotment of Local Government Aid
- \$139,500 of various other differences covered below

Revenue that differed significantly from budgeted amounts is summarized below:

**Property Taxes** – Property tax collections fell \$14,000 below budget, however the \$132,000 abatement transfer from the Fairgrounds District more than offset this, causing this line item to exceed budget by \$118,000.

**Cable Franchise Fees** – Cable franchise fees exceeded budget by \$5,600, generating a total of \$143,000 in revenue. Amounts in excess of \$80,000 per year were previously transferred to a separate special revenue fund. Staff's recommendation is to close out this special revenue fund to the general fund and budget future cable programming operating expenses within the general fund. PEG fees collected are placed in a fund for acquisition of equipment for cable access purposes. Year end cash balance was \$57,600.

**Licenses & Permits** – Exceeded budget amounts by \$17,700 due to additional liquor and business licenses issued.

**Interest Income** – Interest earned fell below budget projections by \$17,500 due to lower market rates during 2008.

**Fine Revenue** – Fell below budget by \$26,200 due to lower parking ticket and court fine collections.

**Internal Service Charges** – Internal service revenue, representing administrative charges to other departments/projects, were below budget by \$46,400 due primarily to lower engineering time allocated to projects than was estimated.

Most General Fund department **expenses** were under or near budgeted amounts. Explanations for departments over budget are as follows:

**Administration** - Accrued leave increases.

**Legal** – Due to work load issues, accrued leave earned by former assistant City attorney was higher than budget.

**Technology Services** - Purchase of network switch equipment.

**Police** - Adjustments were made in late 2008 to all budgets to reflect year to date expenditures. When these were calculated, personnel costs were under estimated. This accounts for \$87,000 of the amount over budget.

The remaining \$11,000 is a combination of items over budget (repairs, telephone, professional services) while others were under budget (utilities, equipment, travel, supplies). Despite the overage, the police department was within 3% of its budget.

**Fire** - Personnel related costs under by \$5,300  
Supplies and maintenance items over \$6,600  
Utilities/Insurance/Other under \$1,000

**Streets** - Overtime exceeded budget by \$6,000  
Fuel, chemicals and maintenance over by \$20,000  
Electricity over by \$15,000

**Parks** - Combination of items over and under budget.

### **GENERAL FUND SUMMARY**

The positive news is most departments stayed within budget. Total expenditures were within 1% of budgeted amounts. Some budget shortfalls are difficult to avoid due to the weather or occurrences beyond departmental control. The future goal is to improve budget monitoring and make better estimates for year end budget adjustments.

The City has \$4,279,067 in General Fund designated and undesignated reserves available to offset deficit budget results for 2008. In order to do so, the City needs to reduce designated reserves by \$456,011 and eliminate undesignated reserves. This will leave \$3,598,644 in designated cash reserves, representing 41% of the 2009 budget. The City's goal is to maintain 50%, or six months worth of expenses in reserves.

### **EXHIBIT 2 – City Wide Fund Summary**

This schedule summarizes actual revenue, expense and cash balances for all fund types. On a city wide basis, expenses exceeded revenues by \$550,000 while cash balances decreased by \$2.2 million. This decrease was anticipated.

Special revenue fund income exceeded expenses by \$1.6 million because sales tax collections were \$1.2 million greater than amounts spent. The remaining difference consisted of assessments received.

Enterprise fund expenses exceeded revenue due to refuse department equipment purchases and utility construction projects.

The city has adequate reserves to handle expenses exceeding revenue. In most cases cash balance approximate fund balance. Any differences between cash and fund balance are caused by accrual basis accounting and capitalized assets and related liabilities.

### **EXHIBIT 3 – Liquor Operations**

2008 liquor operations generated \$362,400 in operating profits. During 2008, \$318,000 was spent on sign additions, general fund subsidy and Youth Hockey contributions.

Operating profit margins have historically been in the 9% to 11% range. A primary cause of the lower margin of 8% in 2008 is the rising use of credit cards. During 2008 approximately 40% of all liquor sales were made with credit cards. Credit card use and related costs have more than

doubled since 2005. Credit card fees amounted to nearly 1.5% of total sales. Product pricing has been adjusted to recover credit card costs.

The 2010 budget process and upcoming annexation consideration will provide opportunity to discuss how liquor funds are utilized in the future. Issues to consider may include: street construction projects, liquor store improvements or other city needs. Staff recently contacted owners of Northern Liquor to discuss potential sale and/or annexation of this business.

#### **EXHIBIT 4 – Arena Fund Analysis**

The Arena had an operating loss of \$80,000 similar to that of the previous year. If operating losses remain consistent it will take three years to pay off the deficit assuming no further capital improvements are necessary. The current cash deficit is \$73,239.

**Utility Funds** – Our consultants update the utility funds financial projections on an annual basis. This was completed last fall. This will be updated after the results of the current water and sewer system studies are completed.

#### **EXHIBIT 5 – History of Taxable Property Values, Tax Rates and General Fund Balances**

The previous exhibits and discussion focused on 2008 activity and financial results. This exhibit presents a historical view of other areas of interest. Should the Council desire other data please contact me.

**Property Values** – Over the last ten years property values have increased \$414 million, or 150%, resulting in an average annual increase of 15%. This pace will not continue and according to the City assessor, we can anticipate little or no growth other than new construction for next year. New building permits average \$36 million per year.

**Tax Rates** - As property increased in value over the last several years, tax rates remained stable. During this time property tax revenue increased because the rate was applied to a larger base of property.

Bemidji's tax rate (35.34) compares favorably to other cities our size (40.57), cities in our region (42.99) and all cities in the state (36.29). While every city has its own unique characteristics, these comparisons put Bemidji's rate in perspective.

**General Fund Balances** – The City has strived to maintain a General Fund Balance goal of 50% of budgeted expenditures. The majority of funding for the General Fund comes in the form of property taxes and LGA which are received twice a year in June and December. In order to have adequate cash flow to meet monthly expenses, adequate cash reserves are important to avoid short term borrowing.



### **EXHIBIT 6 – City Bond Rating**

A review of 2008 activity would not be complete without a short discussion of the City's bond rating. The City's A2 rating falls in the **upper medium grade** indicating **low credit risk** and **strong financial commitment**.

In order to obtain a higher rating, the City needs to improve socio-economic factors such as median income level, home values and unemployment rates. Currently all of these factors are below state and national averages and difficult for the City to change.

The City maintains the A2 rating because we have reasonable debt levels, strong financial management and healthy reserves. Since Beltrami County shares many of the same characteristics as the City, they have the same A2 rating.

During 2008 the City sold over \$25 million in bonds as follows:

- \$6.4 million to refinance the original BCA bonds at a lower interest rate
- \$14.5 million to purchase property on the SE Shore
- \$4.3 million to finance construction projects including Birchmont Drive

### **OVERALL SUMMARY:**

Positives: 😊

1. City had sufficient reserves to absorb deficit budget results
2. General Fund reserves for cash flow are at \$3.6 million, or 41% and within State Auditor recommended guidelines of 35 to 50%
3. Other?????

Future Challenges: 😞

1. Maintaining City service levels and staffing with levy limits and anticipated LGA cuts
2. Funding for equipment needs, building maintenance issues and construction projects
3. BREC start up and operational costs
4. Annexation
5. 2010 property tax levy – without including costs to repay SE Shore land bond payments, initial projections for tax increase of 12%

The challenges exist primarily because funding requirements are not known at this time. For example, sanitary sewer and water system studies are underway that will recommend future utility improvements. BREC start up and operational costs are also uncertain. Limited financial resources will require prioritization of projects and service levels which the City is accustomed to.

Staff is anxious for what the legislative session will bring as final LGA reductions and possible lifting of levy limits. While this work session summarizes prior year financial results, it also signals the beginning of a new budget process. Over the next several months staff will begin preparing the 2010 budget to present to Council.

**RECOMMENDATION:**

Approve the attached resolution authorizing the following:

- Designate General Fund balance for cash flow of \$3,598,644
- Adjust other designated fund balance as follows:
  - Reduce Permanent Improvement balance to \$409,024 to reflect \$350,000 for parking needs and \$59,024 for contingencies
  - Eliminate \$14,110,698 balance for water/sewer projects as all available funds are for future system expansion and improvements
  - Eliminate liquor store balance of \$42,000 for store improvements as these are included in the budget
  - Eliminate Arena balance of \$10,000 for improvements as this is included in the annual budget
  - Transfer fund balance in PEG Operating Special Revenue Fund to the General Fund and include future budgets as part of the General Fund

# CITY OF BEMIDJI - GENERAL FUND BUDGET REPORT

**31-Dec-08**

DESCRIPTION	ANNUAL		(OVER) UNDER BUDGET	%
	ACTUAL	BUDGET	BUDGET	USED
<b>REVENUE</b>				
Property Taxes	2,552,711	2,434,571	(118,140)	105%
Other Taxes & Fees	218,431	215,000	(3,431)	102%
Licenses & Permits	255,056	237,400	(17,656)	107%
Intergovernmental	3,100,772	3,340,458	239,686	93%
Other & Interest	291,539	309,000	17,461	94%
Fire Revenue	273,540	275,346	1,806	99%
Fines	227,302	253,500	26,198	90%
Internal Services/Transfers	1,399,566	1,445,990	46,424	97%
<b>TOTAL REVENUE</b>	<b>8,318,917</b>	<b>8,511,265</b>	<b>192,348</b>	<b>98%</b>
<b>EXPENSES</b>				
<b>GOVERNMENT</b>				
Council	129,446	132,100	2,654	98%
Administration	281,324	276,500	(4,824)	102%
Election	12,699	13,800	1,101	92%
Finance	485,956	495,400	9,444	98%
Assessing	87,391	87,500	109	100%
Legal	246,604	241,900	(4,704)	102%
Technology Services	94,474	90,200	(4,274)	105%
	1,337,894	1,337,400	(494)	100%
<b>PUBLIC SAFETY</b>				
Police	3,223,481	3,128,400	(95,081)	103%
Fire Protection	974,215	970,920	(3,295)	100%
	4,197,696	4,099,320	(98,376)	102%
<b>STREETS</b>				
Streets	1,308,044	1,267,720	(40,324)	103%
Engineering & Public Works	514,976	532,100	17,124	97%
GIS	94,322	99,750	5,428	95%
	1,917,342	1,899,570	(17,772)	101%
<b>PARKS</b>				
Parks	544,107	541,440	(2,667)	100%
Arena Transfer	118,330	118,330	-	100%
Library	229,072	229,884	812	100%
	891,509	889,654	(1,855)	100%
<b>MISCELLANEOUS</b>				
Community Development/JPB	196,310	201,950	5,640	97%
Public Transportation	11,708	12,000	292	98%
Transfers	224,000	224,000	-	100%
Airport Transfer	180,000	180,000	-	100%
	612,018	617,950	5,932	99%
<b>TOTAL EXPENSES</b>	<b>8,956,459</b>	<b>8,843,894</b>	<b>(112,565)</b>	<b>101%</b>
<b>NET DEFICIT</b>	<b>(637,542)</b>		<b>EXHIBIT 1</b>	

**CITY OF BEMIDJI  
2008 CITY WIDE FUND SUMMARY**

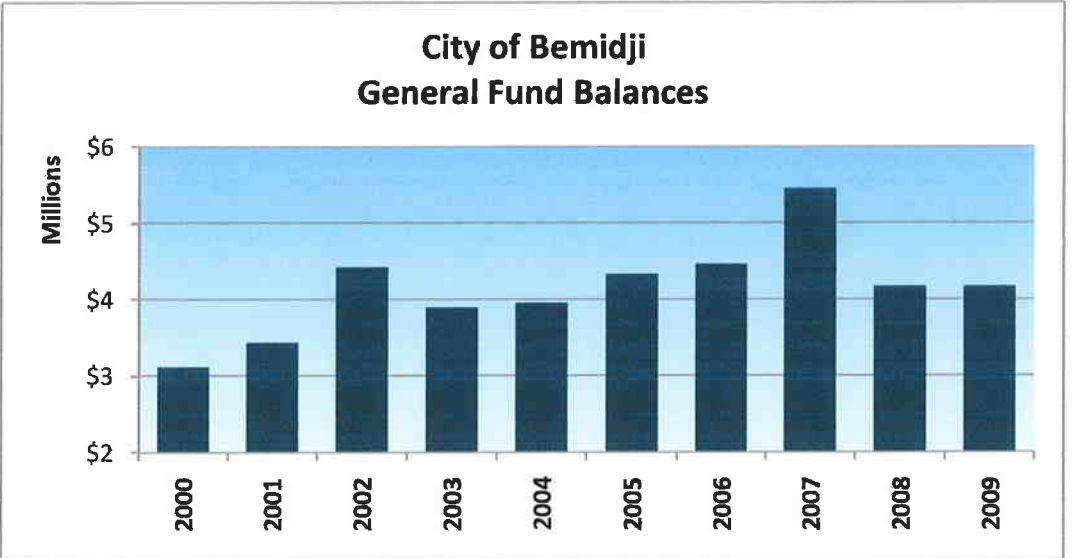
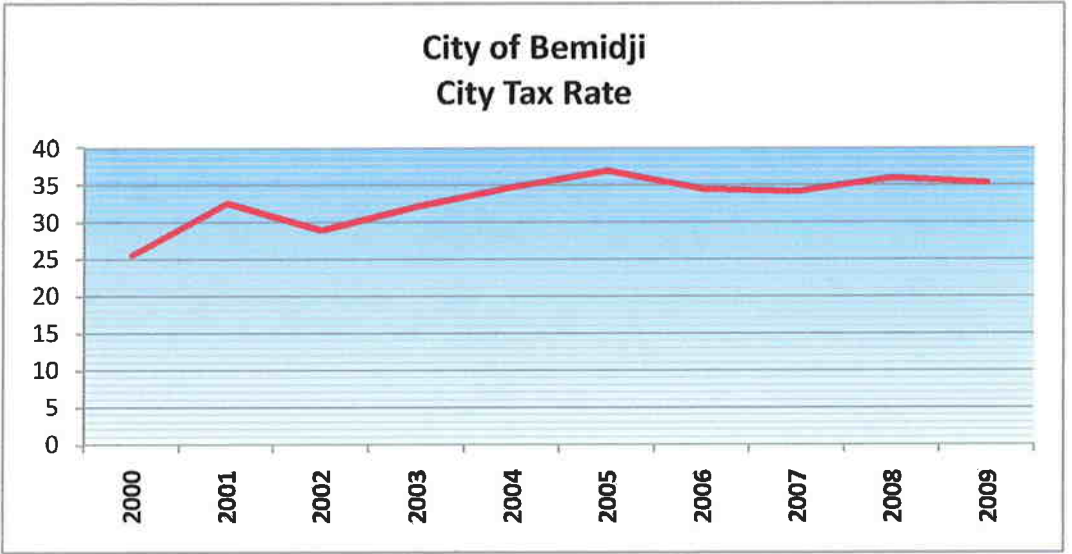
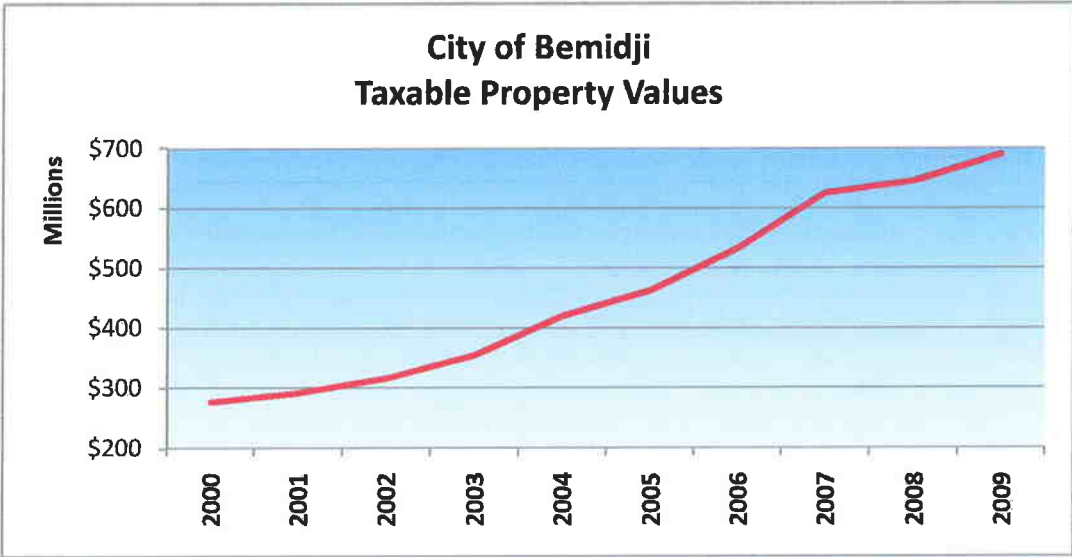
FUND	DESCRIPTION	Actual		Revenue>	12/31/2008
		Revenue	Expense	Expense	CASH BALANCE
101	<u>GENERAL FUND</u>	8,318,917	8,956,459	(637,542)	4,477,215
Var	<u>SPECIAL REVENUE</u>	7,988,360	6,400,032	1,588,328	3,425,235
Var	<u>DEBT SERVICE</u>	42,425,525	43,663,871	(1,238,346)	4,966,992
<b><u>ENTERPRISE FUNDS</u></b>					
601	Public Utilities	9,994,699	10,293,366	(298,667)	7,945,528
602	Storm Water	959,185	983,202	(24,017)	615,399
603	Refuse	373,398	412,169	(38,771)	262,665
609	Liquor	4,533,673	4,435,487	98,186	364,818
	Total	<u>15,860,955</u>	<u>16,124,224</u>	<u>(263,269)</u>	<u>9,188,410</u>
<b>GRAND TOTAL</b>		<u>74,593,757</u>	<u>75,144,586</u>	<u>(550,829)</u>	<b>22,057,852</b>
				12/31/07 Cash	<u>24,274,718</u>
				Decrease	<u>(2,216,866)</u>

**CITY OF BEMIDJI  
LIQUOR OPERATIONS**

<b>DESCRIPTION</b>	<b>Final 2008</b>	<b>5% increase Projected 2009</b>
<b>SALES</b>	4,525,168	4,751,426
<b>COST OF GOODS</b>	3,390,579	3,560,108
<b>GROSS PROFIT</b>	1,134,589	1,191,318
<b>OPERATING EXPENSES/no depr</b>	772,190	810,800
<b>OPERATING PROFIT</b>	362,399	380,519
<b>OPERATING %</b>	8.0%	8.0%
<b>OTHER INCOME/(EXPENDITURES)</b>		
<b>Youth Hockey</b>	(40,000)	
<b>Transfers to General Fund</b>	(220,000)	(220,000)
<b>Store Improvements</b>	(58,216)	
<b>Nymore Street Project</b>	5,497	
<b>Other Income</b>	8,505	10,000
<b>Total</b>	(304,214)	(210,000)
<b>Ending Cash Balance</b>	<b>\$ 364,818</b>	<b>\$ 535,337</b>

**CITY OF BEMIDJI  
ARENA FUND ANALYSIS  
31-Dec-08**

<b>Revenue</b>	<b>2007</b>	<b>2008</b>
Ice Rent	120,689	101,359
Other	5,714	5,894
Total	126,403	107,253
<b>Expenses</b>		
Personnel Costs	95,160	73,801
Supplies & Maintenance	33,484	27,919
Other Services & Charges	69,175	75,543
Admininstration	12,061	10,139
Total Expenses	209,880	187,402
<b>Operating Loss</b>	<b>(83,477)</b>	<b>(80,149)</b>
<b>Non-Operating Items</b>		
Transfer from General Fund	218,330	118,330
Capital Improvements Costs		25,817
<b>Deficit Cash Balance</b>	<b>(102,508)</b>	<b>(73,239)</b>



**Exhibit 5**

Quality	Moody's	S&P	Fitch	Rating Definitions
<b>Investment Grade</b>				<i>Provided by Moody's and S&amp;P</i>
Highest Quality	Aaa	AAA	AAA	Minimal Credit Risk - Extremely strong financial commitment
High Quality	Aa1 Aa2 Aa3	AA+ AA AA -	AA+ AA AA -	Very Low Credit Risk - Very strong financial commitment
Upper Medium Grade	A1 <b>A2</b> A3	A+ <b>A</b> A -	A+ <b>A</b> A -	Low Credit Risk - Strong financial commitment
Medium Grade	Baa1 Baa2 Baa3	BBB+ BBB BBB -	BBB+ BBB BBB -	Moderate Credit Risk - May possess certain speculative characteristics
<b>Non-Investment Grade</b>				
Lower Medium Grade	Ba1 Ba2 Ba3	BB+ BB BB -	BB+ BB BB -	Substantial Credit Risk - Judged to have speculative characteristics
Low Grade	B1 B2 B3	B+ B B -	B+ B B -	High Credit Risk - Considered Speculative
Poor Quality	Caa1 Caa2 Caa3	CCC+ CCC CCC -	CCC+ CCC CCC -	Very High Credit Risk - Judged to be of poor standing
Most Speculative	Ca1 Ca2 Ca3	CC+ CC CC -	CC+ CC CC -	Extremely High Credit Risk - Some prospect of recovery of principal and interest
No Interest Paid	C	C	C	Missed Interest Payment - Possible action taken towards a bankruptcy petition
In Default	C	D	D	Payments in Default - Bankruptcy petition filed and future obligations are in jeopardy

EXHIBIT 6