

BEMIDJI CITY COUNCIL

Work Session Agenda

Monday, August 10, 2009

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



1. CALL TO ORDER / ROLL CALL

2. BUDGET 2010

3. EVENT CENTER P.U.D. RECOMMENDATION

4. ADJOURNMENT

COUNCIL AGENDA ITEM



Meeting Date: August 10, 2009

Action Requested: Review 2010 general fund budget and tax levy

Prepared By: Ron Eischens, Finance Director *Ron*

Reviewed By: John Chattin, City Manager

The 2010 budget presents many challenges for Council and staff. Receiving significantly less state aid combined with several unmet needs must be considered when establishing the 2010 tax levy. This decision breaks down to how much of the 2008/2009 LGA loss does the Council feel comfortable levying back to taxpayers? This work session focuses on the property tax levy and related budgets. Utility (water, sewer and refuse) and other budgets will be discussed at a later date.

Attachment 1 - General Fund Budget

Major assumptions incorporated in the 2010 budget are:

- No reductions in full time staff
- No cost of living or fringe benefit contribution increases. Assumes union contracts negotiated with same terms
- Operating budgets identical to 2009 except for certain items beyond departmental control
- Minimal capital equipment outlays, defer non essential capital purchases
- Property tax levy recovers all of the 2008 and 2009 LGA reductions

Most revenue and expenditure items remain the same as the amounts after reductions/changes were made in February in anticipation of LGA cuts. Certain 2010 budget items have been adjusted for reasons explained below:

Revenue:

Property Taxes - \$673,000 proposed increase, or 21.9%. Of this amount, \$452,000 represents full recovery of 2008/2009 LGA cuts while the remaining \$221,000 relates to street bond repayment and termination of the Fairgrounds Abatement District. This levy increase is necessary to prevent city services from deteriorating.

Licenses and Permits – \$21,000 increase in cable franchise fees and business licenses which reflect current historical trends.

Intergovernmental – \$151,000 decrease from a combination of; LGA reduction of \$116,000 compared to 2009, loss of one time police grant of \$41,000 and \$6,000 increase in Police Town Aid.

Fines - \$33,000 decrease in county court collections combined with an increase in estimated administrative fines of \$20,000.

Transfers/Internal Services - \$64,000 decrease due to \$41,000 in reduced engineering time charged to projects offset by an equal reduction in engineering department expenses. The remaining \$23,000 relates to reduced administrative costs to allocate to other departments.

Expenses:

Election - \$15,000 increase to cover 2010 general election needs

Finance - \$22,000 decrease due to reduction in staffing

Technology/Computer – \$10,000 decrease, no Microsoft license upgrades required

Assessing – \$2,700 County inflationary increase

Legal – \$2,400 increase resulting from contracting prosecution services

Police - \$43,000 total increase of which \$34,000 is personnel costs related to salary step increases and related benefits but no increase in staff levels and \$9,000 for higher LEC building maintenance and electricity costs

Fire - \$33,000 total increase, \$18,000 personnel costs related to salary step increases and workers compensation insurance increase but no increase in staff, \$12,000 required subsidy to Volunteer Firefighters to cover pension costs and \$2,000 rent for substation

Street - \$74,000 increase as follows; \$14,000 increase in personnel, again related to salary step increases and related benefit adjustments but no increase in staff, \$28,000 increase in street light electricity due to rate increases, \$25,000 in chemical costs due to increased salt prices and \$7,000 increase for overhead costs related to new public works building

Engineering - \$41,000 reduction due to reorganization of public works department staffing which is offset by the decrease in engineering charge back time to project/department costs referred to above

Parks - \$20,000 increase for property insurance related to new park property, \$3,000 in chemicals, \$4,000 in utility costs and dues

Airport Contribution/BREC Operations – Since the Airport now is its own taxing authority, the 2010 budget applies former airport contribution amounts to fund current and/or future BREC operational needs

Public Transportation – \$15,000 in reduced capital funding needs for Paul Bunyan Transit

Transfers – \$41,000 in reduced transfers for trail funding

City Hall – Increase of \$35,000 to recover a portion of the \$400,000 HVAC replacement costs incurred in 2009

Equipment budgeted:

Public Works Director Pickup	\$ 24,000
Financial software upgrade	\$ 15,000
Radios for Fire Department	\$ 5,000
Mower for Parks	\$ 21,000
3 police squad cars and computers	\$105,000
Dump truck and Road Grader	<u>\$265,000</u>
TOTAL	<u>\$435,000</u>

Preliminary Tax Levy

Based on the proposed budget and related assumptions, the tax levy for 2010 would be \$3.7 million, an increase of \$673,313, or 21.9%.

The increase can be summarized as follows:

- Bond payments for street improvement bonds \$301,000
- Termination of Fairgrounds Tax Abatement District \$(79,483)
- Partial replacement of unallotted LGA \$451,796

Proposed Property Tax Increase \$673,313

Setting the tax levy for 2010 should be viewed in a long term context for several reasons. First reason being, the opportunity to levy back remaining balances of 2008/2009 LGA cuts are forever lost if they are not levied in 2010. In other words, in 2010 the city is proposing to levy back 100% of 2008/2009 LGA cuts which totaled \$451,796.

A second reason for long term vision is the possibility of additional LGA cuts in December 2009 and future years. The state financial situation may result in additional LGA cuts. Any LGA reductions in December could be authorized as future special levy amounts.

Final reason; while a 21.9% levy increase is substantial, it fails to finance meet the City's future needs including but not limited to:

1. **Deferred capital items** – deferred equipment purchases and building maintenance issues will worsen the longer these issues are deferred.
2. **Street reconstruction** – City currently has approximately 80 miles of streets. The design life of a road is 40 years. We are currently reconstructing ¼ mile per year. The cost to reconstruct a mile of city streets is \$1 million. At our current rate of funding it will take 105 years to reconstruct the streets that we are building today.
3. **Future parks and trail improvements** – City currently has sales tax funding for these needs, but when those funds are depleted future needs may go unfunded.
4. **Parks and Trail operations** – with additional park/trail improvements being constructed or acquired, additional personnel will be needed to properly maintain these areas. There are no funds available for additional staff.
5. **Personnel** – 2010 budget does not include cost of living or benefit increases. We don't know what 2011 will bring or even if the unions will agree to this proposal for 2010. Unions have temporarily agreed to overtime provisions that are not in their current contracts. It is unknown if we can continue with these temporary agreements in the future.
6. **Annexation** - The city would assume significant financial liabilities should it choose to annex in 2010, the largest being street repairs and maintenance. According to the city engineer it would take \$1 million to bring the existing paved township roads that are within the five year annexation area up to city standards. It would take an additional \$600,000 to pave the gravel roads within the first annexation phase. Operating budgets will need to increase to provide expected service levels to the new areas. The revenue sharing agreement during the first five years limits funding to pay for these added responsibilities. Further discussion and more detail will be provided on August 24th.

Summary

Assuming no tax base increase for 2010, a 21.9% City levy increase would add approximately \$59 in property tax to an owner of the average \$100,000 home. We do anticipate an increase in tax base due to new construction. Also, the Fairgrounds Tax Abatement District ends this year, which will add approximately 2.5% to the tax 2010 base.

Setting the annual tax levy is likely the most important policy decision the Council makes. There is no right or wrong levy amount, only consequences to City services, staff and taxpayers.

Recommendation:

Direct staff to set the 2010 property tax levy at \$3,747,697 based on the above budget assumptions. The levy increase does not include allowable inflation (.76%) and growth in household/population factors to be announced by Department of Revenue on September 1st.

CITY OF BEMIDJI
GENERAL FUND BUDGET 2009/2010

07-Aug-09	Amended	Proposed		
DESCRIPTION	2009	2010	\$ Change	% Change
BUDGET	BUDGET	Inc/(Dec)	08 to 09	
REVENUE				
Property Taxes	2,525,402	2,977,198	451,796	17.9%
Other Taxes and Fees	294,200	294,200	-	0.0%
Licenses & Permits	221,800	242,800	21,000	9.5%
Intergovernmental	3,417,629	3,266,342	(151,287)	-4.4%
Other Revenue	241,853	213,853	(28,000)	-11.6%
Fire Revenue	322,743	322,743	-	0.0%
Fines	272,000	259,000	(13,000)	-4.8%
Transfers/Internal Services	1,513,093	1,448,919	(64,174)	-4.2%
TOTAL REVENUE	8,808,720	9,025,055	216,335	2.5%
OPERATING EXPENSES				
GOVERNMENT				
Mayor & Council	139,100	139,100	-	0.0%
Administration	271,095	271,095	-	0.0%
Election		15,000	15,000	#DIV/0!
Finance	509,530	487,500	(22,030)	-4.3%
Technology/Computer	76,000	66,000	(10,000)	-13.2%
Assessing	90,000	92,700	2,700	3.0%
Legal	311,268	313,700	2,432	0.8%
Community Development	103,666	103,666	-	0.0%
Joint Planning Board	92,385	92,385	-	0.0%
	1,593,044	1,581,146	(11,898)	-0.7%
PUBLIC SAFETY				
Police	3,076,700	3,119,500	42,800	1.4%
Fire Protection	711,872	744,471	32,599	4.6%
	3,788,572	3,863,971	75,399	2.0%
PUBLIC WORKS				
Streets	1,103,261	1,177,580	74,319	6.7%
GIS	90,714	90,714	-	0.0%
Engineering	449,224	407,870	(41,354)	-9.2%
	1,643,199	1,676,164	32,965	2.0%
PARKS				
Parks	579,350	606,850	27,500	4.7%
Arena Transfer	118,330	118,330	-	0.0%
Library	173,734	173,734	-	0.0%
	871,414	898,914	27,500	3.2%
MISCELLANEOUS				
Airport Contribution	183,500		(183,500)	-100.0%
BREC Operating Transfer		183,500	183,500	#DIV/0!
Cable Access		2,200	2,200	#DIV/0!
Contingencies	41,000	41,000	-	0.0%
Public Transportation	26,600	11,600	(15,000)	-56.4%
Transfers	78,774	38,000	(40,774)	-51.8%
City Hall	133,421	168,000	34,579	25.9%
	463,295	444,300	(18,995)	-4.1%
All Dept Equipment	269,600	435,000	165,400	61.4%
TOTAL EXPENSES	8,629,124	8,899,495	270,371	3.1%

CITY OF BEMIDJI 2010 PRELIMINARY LEVY SUMMARY

File Name: LevSumm

08/07/09

DESCRIPTION	AMOUNT
2008 FINAL LEVY	3,074,384
PROJECTED 2009 LEVY - See detail below	3,747,697
DOLLAR INCREASE	673,313
PERCENTAGE INCREASE	21.9%

LEVY BREAKDOWN	2008	2009	Projected 2010
General Fund	2,234,571	2,236,346	2,688,142
Special Levies			
LEC Lease	200,000	197,388	197,388
PERA Aid		91,668	91,668
Economic Develop District - Base	79,483	79,483	-
Economic Develop District - Debt Service	132,159		
2009 Street Improvement Bonds		150,000	451,000
2007 GO Bonds - Public Works Facility	200,000	319,499	319,499
TOTAL	2,846,213	3,074,384	3,747,697