

Council Proceedings

Work Session

May 9, 2005

Pursuant to due call and notice, the Bemidji City Council met in a Work Session on Monday, May 9, 2005, at 5:30 p.m. in the Conference Room of City Hall, Mayor Lehmann presiding.

The following Council members were present: Lehmann, Markeson, Hellquist, Johnson, Erickson, Downs, Meuers.

Staff Present: Minke, Eischens, Sherman, Mack, Freeberg, Oakes

Others: John Burmeister, Consultant

Lehmann called the meeting to order at 5:30 p.m.

Minke noted that the purpose of the meeting is to review the cash flow analysis provided by the consultant, discuss project priorities, consider which assumptions are valid and consider the special assessment and connection policy.

Minke introduced John Burmeister, a consultant from Public Financial Management (PFM) who has been working with the City's Finance Department to gather and analyze information relative to the City's utilities during the past few months. This project was done in response to staff's request to take a comprehensive approach to funding for the CIP.

Burmeister presented a long-term financial and capital planning model for the City of Bemidji Public Utilities Enterprise Fund consisting of sewer, water, and storm water. He noted that the City has traditionally looked at public utilities as one fund rather than individual components, each needing the financial structure to support itself. The planning model provided isolates the individual components of the Public Utilities Enterprise Fund on a stand alone basis to more accurately assess the rates of each individual enterprise fund based on their financial and capital needs.

A detailed analysis for the water, sewer and storm water enterprise funds was provided and Burmeister summarized the overall assumptions of the model. In order to assess the affordability of the City's CIP, PFM developed four different exhibits (including financial summary and supporting detail) to review the impact on the City's rates and cash flow:

1. Assumes the City undertakes 100% of the projects identified in the proposed CIP, maintains the City's current connection policy (25 year average) and continues to increase rates by 3% per year.
2. Assumes the City undertakes 100% of the proposed projects, maintains the City's current connection policy (25 year average) and increases rates to fully fund the projects.
3. Assumes the City undertakes 38% of the proposed projects, adopts a new 15-year connection policy and increases rates by 6% per year.
4. Assumes the City undertakes 100% of the proposed projects, adopts a new 15-year connection policy and increases rates to fully fund the projects.

PFM highlighted the impact on the City's rates from 2005 to 2010 relative to each assumption. It was noted that the model is based on projecting historical data rather than analyzing future projects and water usage.

During subsequent discussion, Lehmann noted that the Council agrees that the current assessment policy is not working. He suggested that the Council examine the policy in depth with recommendations from the staff. He expressed support for an amendment that would provide for assessment of improvements to benefited property owners when the project is completed, with provisions for senior citizen deferral to qualified individuals and some limited accommodation in defined circumstances for undeveloped property to encourage private development. It was suggested that the policy for undeveloped property should provide for accrual of interest on an annual basis beginning at the time the assessment is levied. The principal could be deferred for a brief period until the lots are developed.

Council agreed to amend the interest rate for special assessments to be 1% over the cost of the bonds. Erickson asked whether the City could change the policy for 2005 projects. Minke noted that it was probably too late.

Minke agreed to have City staff draft language for the Assessment Policy based on direction received from the Council. Eischens noted that Council direction would allow PFM to modify the scenarios for further review by the Council.

Burmeister noted that an adjustment in the assessment policy would be helpful, but is not the complete answer. At a bare minimum, he expressed the need for the City to adjust rates to offset the operational increases which are projected at 6%. If there are no rate adjustments, inflation will deteriorate the City's financial capability over time.

Council agreed that they could not support the rate increases that are projected to accomplish the current CIP. Lehmann suggested that the Council determine what they consider to be a reasonable rate increase and to provide direction for staff to prioritize assumptions in the CIP.

Minke suggested that staff would look at the proposed projects, determine which ones are rate funded and which are assessment funded, and develop some priority within those categories with potential options and impacts. He further agreed to develop several new rate scenarios based on the changed assumptions and amended assessment policy.

ADJOURN

There being no further business for discussion, motion by Hellquist, second by Downs to adjourn. Meeting adjourned 6:25 p.m.

Respectfully submitted,

Shirley Sherman
City Clerk