

BEMIDJI CITY COUNCIL

Work Session Agenda

Monday, April 12, 2010

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



1. CALL TO ORDER / ROLL CALL

2. 2009 YEAR END FINANCIAL REVIEW

3. 2010/2011 BUDGET CONSIDERATIONS

4. ADJOURNMENT



Finance Office

MEMORANDUM

TO: Honorable Mayor and City Council
FROM: Ron Eischens, Finance Director *Ron*
REVIEWED BY: John Chattin, City Manager *JC*
DATE: April 12, 2010
RE: 2009 Year-End Financial Update

Attached are the 2009 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 combined with bonding and construction activity resulted in an increase in cash reserves. The City did not experience cash flow shortages during the year and did not borrow to cover unanticipated needs.

There are five attachments as follows:

- **Exhibit 1** - General Fund
- **Exhibit 2** – City wide fund summary
- **Exhibit 3** – Liquor Operations
- **Exhibit 4** – Arena Fund analysis
- **Exhibit 5** – 11 year history of property values, tax rates and general fund balances

EXHIBIT 1 – General Fund

General Fund revenues exceeded expenses resulting in a surplus of \$297,832 or 3.5% of its budget. The surplus is the end result of proactive measures the Council took in February 2009 to reduce expenses and increase revenue.

Revenue that differed significantly from budgeted amounts is summarized below:

Property Taxes – Property tax collections exceeded the budget by \$31,000, due primarily to collection of delinquent taxes and market value credit payments received from previous year.

Internal Service Charges – Internal service revenue, representing administrative charges to other departments/projects, was below budget by \$61,000 due primarily to lower costs and reduced 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:

Police - Adjustments were made in late 2009 to all budgets to reflect year to date expenditures. When these were calculated, contracted personnel costs were under estimated by \$40,000.

Fire – Various operating expenditures resulted in being under budget by \$14,000

Streets – Combination of operating expenses under budget by \$38,000

Parks - Combination of operating expenses under budget by \$22,000

GENERAL FUND SUMMARY

The positive news is departments stayed within budget. Total expenditures were within 1% of budgeted amounts. Some budget shortfalls are difficult to avoid due to the weather, occurrences beyond departmental control or budgeting estimates.

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.

The City currently has \$3,598,644 in reserves designated for cash flow before considering any 2009 budget surplus.

According to the policy, fund balances should be \$4,488,281 (50% of 2010 budgeted expenses of \$8,976,561) at December 31, 2009. Since the current amount does not meet the stated goal, policy states a plan be developed to replenish reserves by the end of the following year. The shortfall (\$4,488,281 less \$3,598,644) of \$889,637 could be replenished by:

- Utilizing \$73,642 of undesignated fund balance
- Recognizing \$297,832 of 2009 budget surplus
- Transfer \$518,163 of liquor reserves to be discussed later

One advantage of maintaining the fund balance goal is potential lower interest rates on refinancing the \$44 million sales tax bonds in 2010. The City will look favorable to bond rating agencies if it maintained its fund balance goal despite challenging economic times and LGA cuts which may lead to more favorable interest rates.

EXHIBIT 2 – City Wide Fund Summary

This schedule summarizes actual revenue, expense and cash balances for all fund types. On a city wide basis, revenues exceeded expenses by \$32 million while cash balances increased by a similar amount. This increase was anticipated and is due to the sale of \$44 million sales tax bonds to fund BREC construction. The entire \$44 million was not required for 2009 construction but the remainder will be spent in 2010 construction.

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.

Debt service revenue exceeded expenses by \$30 million due primarily to BREC bonding versus construction activity.

Enterprise fund revenues exceeded expenses by \$183,600 which was expected and met budgetary goals. Storm water expenses exceeded revenue by \$506,000 due to costs related to storm water infrastructure on the SE Shore.

Any differences between cash and fund balance are caused by accrual basis accounting and capitalized assets and related liabilities.

EXHIBIT 3 – Liquor Operations

2009 liquor operations had a banner year. Sales increased 8%, or \$360,000, while operating profits totaled \$482,021, an increase of 1% over the previous year. Statewide average profit margin for off-sale liquor is 7.9%, our stores are at 9.8%, almost 2% higher!

Since the retirement of the liquor superintendant last fall, liquor and finance staff have been working closely together in a different organizational structure. Store improvements have recently been completed and the following are other projects in progress:

- Staff training and development
- Pricing policies
- Credit card processing requests for proposals
- Monthly cycle inventory count

The liquor fund had cash balances of \$605,798 at year end; an amount in excess of requirements for store operations. As previously mentioned, the Council could transfer \$518,163 of cash reserves to meet its fund balance policy goal.

EXHIBIT 4 – Arena Fund Analysis

The Arena had an operating loss of \$47,800, a much lower amount than previous years. Increased rental rates resulted in higher rent revenue, reducing the operating loss by \$32,000.

If operating losses continue at the current level, the deficit cash balance of \$21,076 will be corrected by the end of 2010 assuming no further capital improvements are necessary. The future of Arena operations needs consideration in light of the scheduled BREC opening in the fall of 2010.

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

The previous exhibits and discussion focused on 2009 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 eleven years property values have increased \$431 million, or 156%, 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 - Tax rates have increased at a slower pace as the City captures the value of a larger tax base.

Bemidji's 2010 tax rate (42.4) compares favorably to other cities our size (41.62) and cities in our region (50.06). While every city has its own unique characteristics, these comparisons put Bemidji's rate in perspective.

OVERALL SUMMARY:

Positives: 😊

1. City had surplus general fund budget results for 2009 despite LGA cuts and challenging economic times
2. Liquor operations had a productive year and accumulated profits for future Council use
3. Staff have stepped up to our budget challenges

Future Challenges: 😐

1. Maintaining City service levels with levy limits and further anticipated LGA cuts including its possible loss
2. Funding for equipment needs, building maintenance and construction projects
3. Annexation

The challenges exist primarily because future LGA funding is not known at this time. Limited financial resources will require prioritization of projects and service levels which the City is accustomed to.

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 2011 budget to present to Council.

RECOMMENDATION:

Approve the attached resolution authorizing the following:

- Designate General Fund balance for cash flow of \$4,216,567
- Authorize transfer of liquor store reserves to general fund of \$518,163
- Reduce Permanent Improvement fund balance to \$350,000 to reflect parking lot needs

RESOLUTION NO.

A RESOLUTION DESIGNATING FUND BALANCES AND TRANSFER OF FUNDS

WHEREAS, on April 12, 2010, the City Council considered the designation of fund balances and transfer of funds.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Bemidji hereby designates fund balances and transfers in accordance with the following schedule:

- Designate General Fund balance for cash flow of \$4,216,567
- Reduce Permanent Improvement Fund balance to \$350,000 for parking needs
- Transfer \$518,163 of excess liquor reserves to General Fund

BE IT FURTHER RESOLVED, the above designations and transfers are effective as of December 31, 2009.

The foregoing resolution was offered by Councilmember _____, who moved its adoption, and on due second by Councilmember _____, was passed by the following vote:

Ayes:

Nays:

Absent:

Passed: April 12, 2010

ATTEST:

APPROVED:

Kay M. Murphy, City Clerk

Richard Lehmann, Mayor

CITY OF BEMIDJI - GENERAL FUND BUDGET

31-Dec-09

DESCRIPTION	ANNUAL		(OVER)	%	ANNUAL
	ACTUAL	BUDGET	UNDER BUDGET		
REVENUE					
Property Taxes	2,556,176	2,525,402	(30,774)	101%	2,525,402
Other Taxes & Fees	296,921	294,000	(2,921)	101%	294,000
Licenses & Permits	257,279	250,500	(6,779)	103%	250,500
Intergovernmental	3,393,007	3,391,034	(1,973)	100%	3,391,034
Other & Interest	133,723	160,753	27,030	83%	160,753
Fire Revenue	333,630	333,480	(150)	100%	333,480
Fines	205,374	204,000	(1,374)	101%	204,000
Internal Services/Transfers	1,454,614	1,515,631	61,017	96%	1,515,631
TOTAL REVENUE	8,630,724	8,674,800	44,076	99%	8,674,800
EXPENSES					
GOVERNMENT					
Council	135,744	137,100	1,356	99%	137,100
Administration	276,406	274,795	(1,611)	101%	274,795
Finance	501,986	509,530	7,544	99%	509,530
Assessing	89,795	90,000	205	100%	90,000
Legal	254,570	258,668	4,098	98%	258,668
MIS/Technology Systems	73,862	73,000	(862)	101%	73,000
	1,332,363	1,343,093	10,730	99%	1,343,093
PUBLIC SAFETY					
Police	3,083,848	3,041,700	(42,148)	101%	3,041,700
Fire	769,669	783,972	14,303	98%	783,972
	3,853,517	3,825,672	(27,845)	101%	3,825,672
STREETS					
Streets	1,071,094	1,108,961	37,867	97%	1,108,961
Engineering & Public Works	439,627	443,934	4,307	99%	443,934
GIS	103,098	105,714	2,616	98%	105,714
	1,613,819	1,658,609	44,790	97%	1,658,609
PARKS					
Parks	608,521	630,350	21,829	97%	630,350
Arena Transfer	118,330	118,330	-	100%	118,330
Library	168,835	173,734	4,899	97%	173,734
	895,686	922,414	26,728	97%	922,414
MISCELLANEOUS					
Community Development/JPB	184,167	191,251	7,084	96%	191,251
Cable Access Operations	1,407	1,700	293		1,700
Contingencies	25,321	59,000	33,679	43%	59,000
Transportation	21,817	26,600	4,783	82%	26,600
Transfers	221,295	221,295	-	100%	221,295
Airport Transfer	183,500	183,500	-	100%	183,500
	637,507	683,346	45,839	93%	683,346
TOTAL EXPENSES	8,332,892	8,433,134	100,242	99%	8,433,134
NET SURPLUS	297,832				

Exhibit 1

**CITY OF BEMIDJI
2009 CITY WIDE FUND SUMMARY**

FUND	DESCRIPTION	Actual		Revenue>	12/31/2009
		Revenue	Expense	Expense	CASH BALANCE
101	<u>GENERAL FUND</u>	8,630,724	8,332,892	297,832	4,925,144
Various	<u>SPECIAL REVENUE</u>	8,596,092	6,974,917	1,621,175	5,294,199
Various	<u>DEBT SERVICE</u>	83,636,075	53,516,167	30,119,908	34,489,165
	<u>ENTERPRISE FUNDS</u>				
601	Water/Sewer	4,821,411	4,434,862	386,549	7,412,863
602	Storm Water	1,305,948	1,811,765	(505,817)	119,947
603	Refuse	307,227	236,816	70,411	332,840
609	Liquor	4,918,641	4,686,184	232,457	605,798
	Total	<u>11,353,227</u>	<u>11,169,627</u>	<u>183,600</u>	<u>8,471,448</u>
	GRAND TOTAL	<u>112,216,118</u>	<u>79,993,603</u>	<u>32,222,515</u>	53,179,956
				12/31/08 Cash	<u>22,057,852</u>
				Increase	<u>31,122,104</u>

CITY OF BEMIDJI LIQUOR OPERATIONS

DESCRIPTION	2008	2009	Increase
SALES	4,545,245	4,904,824	8%
COST OF GOODS	3,390,579	3,659,652	
GROSS PROFIT	1,154,666	1,245,172	
GROSS PROFIT %	25.4%	25.4%	
OPERATING EXPENSES			
Personnel Costs	457,625	460,325	9.4%
Supplies & Maintenance	39,022	51,749	
Other Services & Charges	150,809	137,487	
Utilities	36,029	34,168	
Depreciation	18,426	18,426	
Administrative Allocation	52,948	60,996	
	754,859	763,151	
OPERATING PROFIT	399,807	482,021	
OPERATING %	8.8%	9.8%	
OTHER INCOME/(EXPENDITURES)			
Youth Hockey	(40,000)		
Transfers to General Fund	(220,000)	(224,000)	
Street Projects	1,757	(57,808)	
Other Income	8,505	13,817	
Total	(249,738)	(267,991)	
Ending Cash Balance	\$ 364,818	\$ 605,798	

**CITY OF BEMIDJI
ARENA FUND ANALYSIS
2007 to 2009**

Revenue	2007	2008	2009
Ice Rent	120,689	101,359	130,919
Other	5,714	5,894	7,616
Total	126,403	107,253	138,535
Expenses			
Personnel Costs	95,160	73,801	77,540
Supplies & Maintenance	33,484	27,919	28,651
Other Services & Charges	69,175	75,543	65,196
Admininstration	12,061	10,139	14,907
Total Expenses	209,880	187,402	186,294
Operating Loss	(83,477)	(80,149)	(47,759)
Non-Operating Items			
Transfer from General Fund	218,330	118,330	118,330
Capital Improvements Costs		25,817	13,957
Deficit Cash Balance	(102,508)	(73,239)	(21,076)

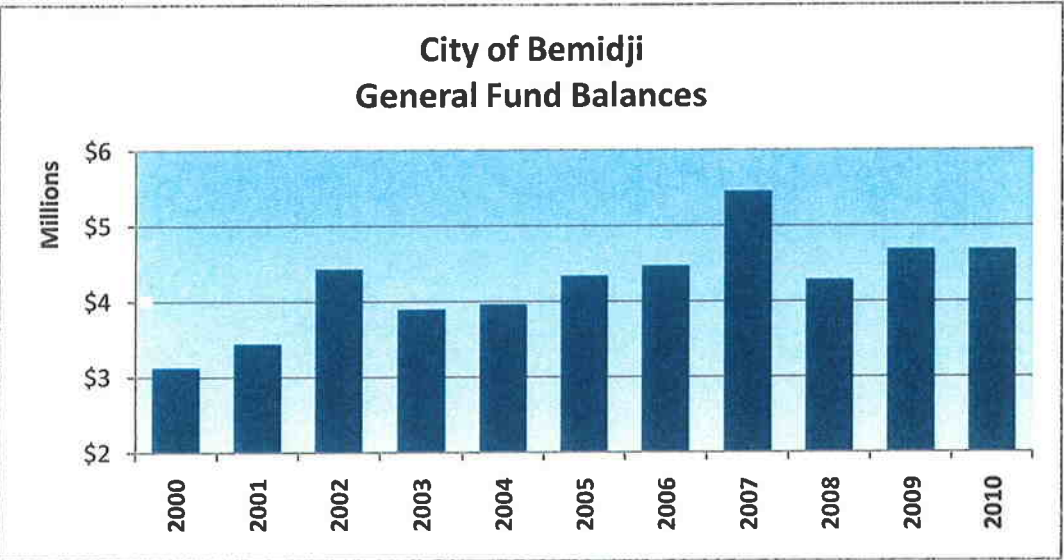
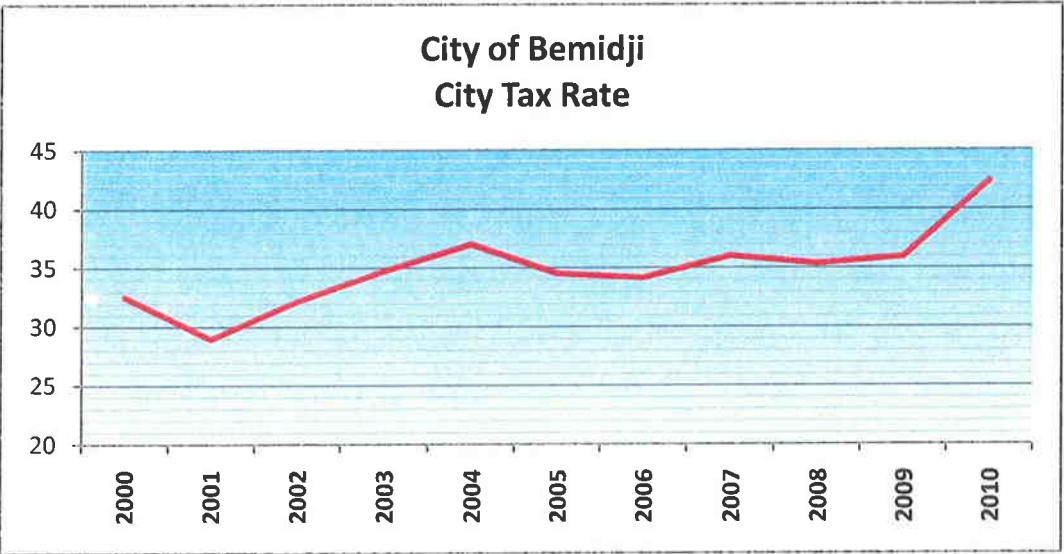
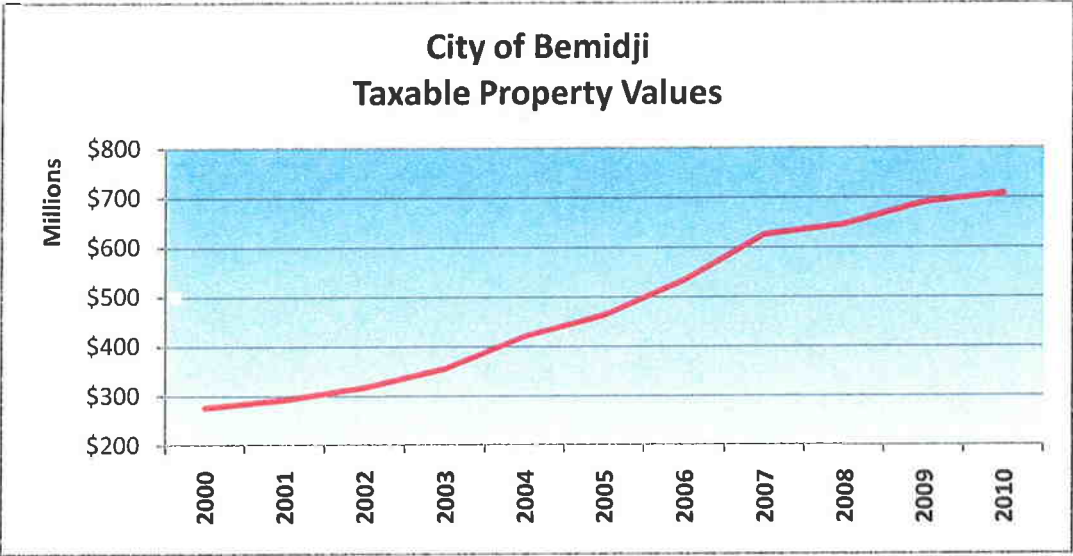



Exhibit 5



City Manager's Office

MEMORANDUM

TO: City Council
FROM: John Chattin, City Manager 
DATE: April 12, 2010
RE: 2010/2011 Budget Considerations

After incorporating the options adopted by the council, and making a few minor adjustments, we now have a surplus budget for 2010 and a potentially manageable deficit for 2011. It must also be noted that recent legislation has drastically reduced the cuts in LGA that we originally anticipated. However, I have not incorporated those changes into the budget worksheet.

The new LGA numbers for 2010 would reduce the previously anticipated LGA cuts by \$336,986. This is obviously a significant number and would go a long way towards relieving our budget problems. But I have not included these savings in the budget for two reasons: we are still subject to unallotment, should the economy not perform as anticipated; and state revenue projections will not support an increase in LGA for 2011.

It is always easier to reinstate services than to cut them. The council has already done the hard work of increasing some revenues and cutting expenses. I believe we should, for the most part, maintain those changes until we have some confidence that the economy is recovering, i.e. state revenues are increasing, and that the governor and/or the legislature no longer look to LGA to balance their budget.

Given the surplus budget for 2010 and the legislation adopted, the council may wish to reinstate some higher priority services. That may be appropriate but I would caution against major increases in expenses as we are still subject to unallotment at year end that always comes after the money has been spent. Maintaining a conservative budget approach now will pay dividends in the future.

Recommendation:

Carefully consider any service reinstatements, in light of recent legislation, but be prepared to trim those services again should the economy not respond favorably.

A 4% levy increase would cover the \$139,386 deficit projected for 2011 under the scenario presented. However, it leaves no room for error nor does it allow for any increased operational costs. We cannot maintain current operational budgets indefinitely and some allowance should be considered. Although no decision is needed now, I will also be recommending that we levy back whatever LGA loss is eventually allowed by the state. We cannot afford to be positioned so that future LGA losses prevent us from providing basic services.

City of Bemidji

Budget Response/Alternatives to Unallotment

	<u>2010</u>	<u>2011</u>
Currently Anticipated Budget Impacts:		
Governor's Total Additional Unallotment	\$581,298	\$881,244
Anticipated Loss From BREC Operations		\$250,000
Less Budgeted Transfers		(\$183,500)
Additional Budget Burden		\$66,500
Total Anticipated Shortfall	\$581,298	\$947,744
Adopted Revenue Enhancements:		
Reallocate MSA Maintenance Funds to General Fund	\$60,000	\$60,000
Eliminate Surplus Budget/Establish Balanced Budget	\$58,167	\$58,167
Increased Neilson Reize revenues/reduced transfers	\$30,000	\$30,000
Rural Fire Contributions Understated	\$30,196	\$30,196
Transfer 50% of Refuse Profits to General Fund	\$32,000	\$32,000
Adopt Fire Inspection Fees for Commercial Buildings		\$1,500
Charge Property Owners for Water Meters	\$12,000	\$12,000
Fees for Assigning New Addresses	\$1,800	\$1,800
Total Additional Revenues	\$224,163	\$225,663
Adjusted Shortfall	\$357,135	\$722,081
Adopted Reductions:		
Operating Budget Reductions:		
Eliminate Contingency Budget	\$20,000	\$40,000
Savings from Annexation Deferral	\$77,000	\$77,000
Phased Retirement of Building Official	\$25,623	\$43,925
Reduce Internal Service Fund Allocation	\$50,000	\$50,000
Legal	\$8,000	\$8,000
Public Works	\$10,500	\$10,500
Fire Department	\$17,250	\$17,250
GIS	\$8,650	\$8,650
Parks	\$25,000	\$20,000
City Hall	\$9,870	\$9,870
Administration	\$1,000	\$1,000
Reduce Police 5-year Capital Expenditures	\$25,000	\$25,000
Reduce Contribution to KRL by 10%	\$10,500	\$10,500
Street Retirement Not Replaced	\$14,000	\$44,000
Two Police Officer Retirements	\$54,000	\$145,000
Utility Operator retirement		\$65,000
Storm Water Assessment Billing Done Internally	\$5,000	\$5,000
Utility Operator Retirement - Lower Paid Replacement	\$4,000	\$2,000
Total Reductions	\$365,393	\$582,695
Shortfall (Surplus)	(\$8,258)	\$139,386