

CITY COUNCIL PROCEEDINGS

BEMIDJI, MINNESOTA

Special Meeting – May 22, 2006

Pursuant to due call and notice, a special work session of the City Council of the City of Bemidji, Beltrami County, Minnesota, was held on May 22, 2006, at 5:30 p.m. in the Conference Room of City Hall, Mayor Lehmann presiding.

Upon roll call, the following Councilmembers were declared present: Lehmann, Markeson, Hellquist, Johnson, Erickson, Downs, Meuers. Absent: Johnson

Others Present: John Burmeister, Ron Eischens, Alan Felix, Brian Freeberg, Kay Murphy-Schuett.

Mayor Lehmann stated that the purpose of the meeting to review the Public Utilities Cash Flow analysis prepared by John Burmeister of the PFM Group. Lehmann commented that he was dismayed by the numbers presented in the packet. He thought the Council had made some provisions that would alleviate some of the suggested changes, however, the corrections or adjustments that were made fell short of the Council's goals. He observed that the decrease of the water usage has contributed to the current status.

Councilmember Johnson joined the meeting at 5:34 p.m.

Eischens stated that the largest concern identified during the cash flow analysis process was the sewer fund which boiled down to a drop in usage and an increase in operating expenses. He stated that the Council is back on track to a more reasonable tax levy and tax rate. After the Council completed that task, the Council reviewed equipment funding. Eischens commented that in the past the 5-year Capital Improvement Plan (CIP) was used to fund the first year budget and the subsequent years were basically ignored. Now the Council has funded all years which is a major accomplishment. The Council has started reviewing and setting aside funds for building repair and replacement escrow. The City owns a number of buildings and due to the age, the City needs to financially plan for building repair. Eischens stated that the current challenge is the utility fund and the City started looking at this issue last year by hiring John Burmeister of Public Financial Management (PFM) to assist the City in making our rate adjustments more consistent and less sporadic. City water and sewer rates were unchanged which required catching up. Over the last two to three years there has been a significant increase for demand for new service extensions and system expansion, i.e., water towers and wastewater treatment facility which has added a significant financial issue to the utility fund. PFM has prepared a cash flow model to analyze what rate increases that are needed to pay for the projects that are in the CIP and operating expenses. One of the issues that staff has realized through this analysis is that rate increases for current rate payers are being asked to cover a substantial expansion of the water and sewer system. Eischens asked the Council to consider if it is a fair policy that current rate payers pay for water towers, wastewater treatment plant expansion to extend water and sewer services to outlying areas. Other cities have initiated Sewer and Water Accessibility Charges (SAC/WAC) to help pay for some of the expansion into new areas. Eischens stated that the bottomline is how to balance the desire for service expansion and growth while maintaining the health of the utility fund.

Eischens provided a hand out of utility funded equipment/improvements. He stated that over the next 5 year period there is a \$39 million total value for water and sewer projects. This is a significant increase projects done by the City in the past. He commented there is a \$5 million cost for WWTF upgrades and improvements over the next 5 years. The plant is approaching 25 years of age and major components of the plant need to be replaced and upgraded.

Burmeister explained SAC/WAC fees stating that when new infrastructure goes into an area, the City can choose to have the existing rate payers pay for the cost or the developer or those initiating the development pay for the cost. Discussion continued on SAC/WAC fees. Eischens stated that staff does not know a lot about sewer and water accessibility charges other than that other cities have used them as an alternative revenue source to help pay for the growth and expansion of the utility system versus having the rate payers pay the cost. Erickson commented that a SAC/WAC fee lift the burden for existing homes with sewer and water that have been carrying these costs and it more fairly spreads the actual costs out to the people who are creating the added cost.

Motion by Erickson, second by Downs, directing staff to seek proposals for a consultant to develop water and sewer access charges. Motion carried unanimously.

Freeberg stated that in order to get the information for SAC/WAC fees, he felt that an engineering consultant should look at how the City will serve the expanding area, pipe sizes and costs. Freeberg commented that his time and his staff's time are dedicated to getting the projects done and not taking a look into the future City needs.

Eischens commented with annexation and growth this is a wise use of City funds to invest in getting an outside opinion on the infrastructure needs and would tie into the SAC/WAC fees because those two projects are somewhat related.

Markeson suggested that perhaps an assistant engineer could be hired to oversee projects and Freeberg could do the study. Freeberg responded that this is an option but he would still like to see an engineering consultant hired.

Motion by Markeson, second by Johnson, directing staff to seek proposals for an engineering consultant to review the future infrastructure needs for the Bemidji area. Motion carried unanimously.

John Burmeister, Public Financial Management Group, reviewed the updated long-term financial and capital planning model developed for the City's Public Utilities Enterprise Fund. He stated that we now have a full year's worth of financial data and have included the City's budget information and the preliminary CIP. He stated that the water usage has dropped. The rate increase adopted by the City is not producing a 7% increase in revenue. Discussion continued on reasons for the drop in water usage noting that one reason may be due to reduced summer watering.

Burmeister noted that the sewer enterprise fund is not funding debt and does not have any money left except for cash reserves to fund capital outlays at this point. He stated that this is a dramatic change from where the City was last year. He noted that it is a combination of water usage dropping and expenses increasing.

Erickson observed that the other services and charges expense has doubled and asked why this has occurred.

Eischens responded that a large part of this increase is due to televising of the sewer lines in 2005 and the increase in chemical costs for the WWTF. He stated he will look into the reason for the increase in more detail.

Eischens reviewed a water, sewer and storm water rate comparison chart with other cities that are somewhat similar to Bemidji. He noted that it is difficult to compare Bemidji to other cities as Bemidji has a state of the art treatment facility which discharges into the Mississippi River that meets and exceeds the effluent emission standards. He commented that he does not know what the other cities have and this may be the reason for the difference in sewer rates.

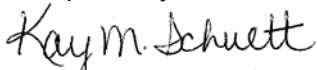
Burmeister noted that the stormwater fund appears to be doing well. The revenues being generated by the stormwater fee after payment of debt are in excess of the capital outlays, therefore, this particular utility is able to fund its needs going forward and does not have the infrastructural imbalance that the water and sewer funds do. The stormwater fund will offset the negative performance of sewer to make it look better on a blended basis.

Freeberg commented that the City is moving into a heavily regulated stormwater issues (NPDES), which will put a strain on the stormwater fund.

ADJOURN

There being no further business, motion by Erickson, second by Hellquist, to adjourn the meeting. Motion carried. Meeting adjourned at 6:40 p.m.

Respectfully submitted,



Kay Murphy-Schuett
City Clerk