

# CITY COUNCIL PROCEEDINGS

## BEMIDJI, MINNESOTA

### Regular Work Session – May 14, 2007

Pursuant to due call and notice, a regular meeting/work session of the City Council of the City of Bemidji, Beltrami County, Minnesota, was held on Monday, May 14, 2007, at 5:30 p.m. in the Conference Room of City Hall, Mayor Lehmann presiding.

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

Staff Present: John Chattin, Ron Eischens, Brian Freeberg, Kay Murphy  
Others Present: Jon Burmeister, PFM

Mayor Lehmann stated that the purpose of the meeting was to discuss the 2008 budget and the public utility cashflow. Information has been received from the PFM Group for Council's review.

Eischens stated that this is the third year the city has done this process. There was a significant increase in demand and dollar amounts for capital projects and the City wanted to make sure the city utility funds could afford the increase in the project demand especially in light of the annexation agreement. This is a planning model that is updated each year. A number of projects have been deferred this year which will change some of the information provided. Eischens stated that there are some challenges in the utility funds going forward which staff is in the process of addressing. Last year, the City was looking at rate increases of 7 percent for the next five years to afford construction projects in the CIP. One of the major assumption changes in this year's model is that the rate increases have been capped at 3 percent per year for the next five years which creates challenges as far as projects are concerned. This model does not reflect the \$1.7 million savings from the Public Works building. In addition, Birchmont and Industrial Park projects are not on the same timeline as originally anticipated.

#### Sewer Fund

Jon Burmeister, the PFM Group, stated that the Sewer Fund will begin to generate deficits starting in 2009 and beyond. Assuming there is no additional growth in usage, the 3 percent rate increases are not sufficient to cover 4 percent increases in operating expenses as well as debt service payments and capital outlays. It is anticipated that the debt service coverage ratio will drop below the recommended 1.30x by 2007 and starting in 2009, the net revenues will not be sufficient to make the debt service payments. Due to the large amount of capital outlays, the cash balance attributed to the Sewer Fund will be negative by 2011.

Eischens commented that the certain sewer operating expenses are out of the superintendent's control. Heating costs have increased two and half times over the last two years for the Sewer Department, in particular at the wastewater plant. In addition, chemical costs have doubled. Maintenance costs increased \$40,000. Discussion followed regarding the increase cost of heating and it was noted that it was primarily energy increases.

Eischens stated that one of the reasons the City capped increases at 3 percent is Bemidji's rates are high compared to other cities in the state. Discussion followed regarding why our rates are higher than other cities and it was noted the city is using much of its revenue to pay debt service.

#### Water Fund

Burmeister commented that the Water Fund will be affected by many of the same factors as the Sewer Fund. However, the erosion of the Water Fund's financial performance is not as severe as the Sewer Fund. The debt service coverage ratio is anticipated to decrease from 1.73x in 2006 to 1.37x in 2012. This is a result of operating expenses growing faster than operating revenues. Although, the 3 percent rate increases are not sufficient to keep up with the 4 percent increases in operating expenses, the Water Fund can absorb this deterioration over the next five years.

Markeson suggested a rate reduction for water and increase an increase for sewer.

#### Stormwater Fund

Incorporating 3 percent rate increases for 2008 and beyond in the Stormwater Fund, it is anticipated there will be sufficient revenues to make the debt services payments.

Burmeister stated that the large capital outlay of \$1,922,000 in 2007 completely eliminates all cash on hand attributable to the Stormwater Fund. Future capital outlays are somewhat larger than the amount of revenue generated after the debt payments until 2010 which results in an ongoing negative cash balance until 2011.

Discussion continued on stormwater runoff and it was noted that more requirements are coming into play and there are a number of improvements that will need to be made.

Freeberg noted that there have been a number of projects deferred as they are not a crisis, however, they will be moved up as demand grows.

Refuse Fund

Eischens stated that the City is out of the commercial refuse hauling effective June 1, 2007. The City will continue to operate the residential refuse and the CIP has a new refuse truck in 2008.

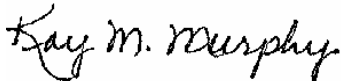
Burmeister stated that based on the results of their analysis, the City should undertake a careful review of the operating expenses in the enterprise funds. It appears that the City's capital improvement needs are beyond the financial capabilities of the Public Utility Enterprise Funds unless greater increases to the rates and charges are considered or the City identifies additional revenues sources such as SAC/WAC fees.

Eischens stated that the Council will receive a report within the next month or two regarding the SAC/WAC fee analysis.

**ADJOURN**

There being no further business, motion by Markeson, second by Downs, to adjourn the meeting. Motion carried. Meeting adjourned at 6:25 p.m.

Respectfully submitted,



Kay M. Murphy  
City Clerk