

BEMIDJI CITY COUNCIL

Work Session Agenda

Monday, January 12, 2015

**City Hall
Council Chambers
5:30 P.M.**



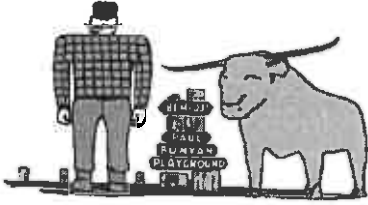
1. CALL TO ORDER / ROLL CALL

2. DISCUSSION: 2016 FINANCIAL MANAGEMENT PLAN – Finance Director

3. CITY MANAGER SELECTION PROCESS UPDATE

4. ADJOURNMENT

NOTE: All cellular telephones, pagers and BlackBerry devices to be switched to a non-audible function during Council and Committee meetings.



City of Bemidji

Finance Office

Memorandum

To: Honorable Mayor and City Council

From: Ron Eischens, Finance Director *Ron*

Date: January 12, 2015

RE: 2016 Financial Management Plan
(also known as the "budget")

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Last month the Council approved the 2015 City budget, so why are we already discussing the 2016 budget? Because, during the last budget process there was interest expressed in developing a longer term budget focus. This approach will consume more meeting time and discussion but should result in better planning.

First of all, what we have previously called the "budget process" should be called a Financial Management Plan, FMP for short. The term "budget" implies a less sophisticated as well as year to year process. We already incorporate a five year capital improvement plan as part of our FMP. Going forward we should consider a longer term approach to operational costs as well.

Goals for this work session:

1. Advantages of FMP
2. Current issues
3. FMP major assumptions
4. Revenue alternatives and levy updates
5. Union contracts and negotiations
6. Review September 2014 strategic planning session agenda

Review advantages of FMP

The City has developed many components of a good FMP. In order to take “budgeting” to a higher level, we need to incorporate these component areas into the budget process.

A FMP integrates the following areas into the budget:

- Capital improvement plan – (City currently does)
- Current and future debt – (City doesn’t project future debt)
- Future staffing needs
- Future operating expense and growth assumptions
- Projected future tax base growth

The benefits of an FMP are:

- Focus on big picture and policy issues
 - Avoids randomly picking a tax levy percent increase
- Allows the Council to focus on long-term financial health of the City
 - Provide good services, streets and facilities
 - Avoids focus on one year tax impacts
- Identifies funding source for projects/items that are considered priority
- Evaluates financial impacts on taxpayers

An FMP is practical because it:

- Manages expectations
 - New projects evaluated against other priorities
 - Prioritize projects based on affordability parameters
- Maintains assets
 - Regular capital and facility replacement
- Reduces challenges during budget process
 - Agree on assumptions
 - Better understand budget impact

Bottom line, this is a plan. If the Council sets priorities and assumptions, completing the budget is a less stressful process for all. Projects get done and the City has a vehicle to inform residents on the goals of the City.

Review current issues

In order to prepare an effective FMP, the Council needs to prioritize issues. Below is a list of items City staff have on their radar in the near future, along with a brief explanation. Items are listed in category order:

Capital Projects:

1. **Neilson Reise Arena** – As discussed several times last year, this facility is in need of major repairs and renovation in the near future. Costs to renovate and upgrade the facility range from \$2.2 million to \$3.5 million dollars depending on desired outcome. Costs for a new facility range from \$6 million to \$7 million.
2. **South Shore Park** – The Lake Bemidji clean-up project is scheduled for fall of 2015. What is Council's direction as it relates to the development of a South Shore Park? Estimated costs range from \$1.5 million to \$2.2 million based on desired amenities and features. The current city budget allocates \$50,000 annually for the entire park system development. At this funding level, it would take six years to renovate the old bath house into a usable facility. Additional funding sources are required if a new park is to be established.
3. **South Shore Marina/Day Docks** – Funding of \$100,000 has been set aside to complete "Phase I" of this project in 2015 with an additional \$100,000 included in the CIP for future expansion. Discussion on the dock management plan, operations and slip rental pricing should be held prior to moving forward with construction.
4. **Railroad Corridor Development** – will the City be asked to provide incentives or funding to encourage development of this area?
5. **Parks/Bike Trails Improvements** – as part of on-going trail and park development, the Council needs to consider if \$50,000 annually is sufficient for this purpose or if additional dedicated tax levies should be established.
6. **Library expansion**- Last year former City librarian Paul Ericsson provided a long list of library issues/concerns including building improvement and expansion. The desire for a formal needs assessment and long range plan for the library's facility and services was at the top of his list.
7. **Increased street replacement funding** – Currently the City is providing \$375,000 annually in property taxes and \$375,000 in storm water fees to fund a portion of the annual street improvement program. At this funding level the City can replace its streets every 100 years. The useful life of a new street is 45 years. When we annex Phase II in 2015/2018 that rotation increases to 107 years without increased funding. A funding increase to \$475,000 reduces street rotation to every 93 years.
8. **Sanford Center Water Leak** – While the ultimate costs of this issue cannot be determined at this time, it would be prudent to assume the City will bear some responsibility. Estimated costs are unknown.

9. **South Shore Land Bond Payments** – these debt payments total \$6.8 million through year 2028. Currently the City has \$869,000, which is sufficient to make bond payments through year 2015, leaving a balance of \$321,714. There are potential land sales in progress that could generate additional revenue to make bond payments through 2016 which avoids levying additional property taxes. Long term, the question is, will the vacant land for sale generate the \$6 million necessary to make remaining bond payments? If not, how will the City meet this obligation?
10. **Birchmont Drive assessments** – the resolution of this lawsuit may require a City financial contribution, the amount of which is unknown at this time.
11. **Capital Replacement Funding for City Buildings**
 - a. Sanford Center
 - b. All other City Buildings – Arena is classic example
12. **Fire Station # 2** – the estimated cost of construction in 2016 is \$1.2 million. Even though this project is included in the fire department capital improvement plan, the cash to pay for it will not be fully available by 2016, requiring borrowing or internal financing by the City and/or Rural Fire Association.
13. **Police Department Radios** - Beltrami County recently moved to the 800 MHz radio system. In order to have radio interoperability the Police Department needs to upgrade both mobile and portable radio at a cost of \$92,000. The department has purchased some radios already and is seeking grant funding for the remainder. However, if no grant funds are received this expense will be requested in 2016.
14. **Police Body Worn Cameras** - the department continues to research and evaluate body worn cameras. There are significant issues to resolve before the department will purchase cameras. Storage space for the video is as costly as the cameras themselves, not to mention legal issues related to the privacy, or lack thereof, are primary reasons for delaying the purchase. Other Cities are currently in litigation on this issue. Costs may be added to the 2017 CIP if the legal issues are resolved by that time.
15. **GIS Website Update** – For the last 7 years the City has partnered with the County to provide internet mapping services to customers. The current website option is obsolete and difficult to maintain. County and City GIS staff have explored local website development and maintenance options with an estimated startup cost of \$20,000 to be shared between the City and County. On-going annual maintenance would be approximately \$2,000.

Personnel Related Issues:

16. **Joint Planning Board Position** – the JPB is considering an additional staff person to deal with setback verifications and code enforcement. This employee could also be utilized by the City GIS department to maintain and update GIS data. This position could be hired by the JPB but cost shared with the City. Estimated City cost of \$20,000.

17. **Fire Marshall** – as discussed last year, a Fire Marshall would provide for a more balanced approach to fire prevention. Having this position would allow a more effective prevention program through education and code enforcement. Estimated cost of \$88,000 with potential cost sharing with the Rural Fire Association.
18. **Police Department Overtime** – due to 2009 budget challenges, all departments' overtime budgets were reduced by 50%. The police department routinely exceeds its overtime budget by \$40,000 or more. This overage has been covered by savings in other line items. The detrimental impact of this type of budgeting results in reduced funding for other areas and is not sustainable. Currently, the police department is mandated by the State of MN to provide specific training to all officers. Despite best efforts to schedule training during regular work hours, overtime is often required. The overtime costs related to training amount to \$60,000, leaving \$10,000 for overtime for 35 employees operating 24 hours a day 7 days a week. Requested increase of \$70,000 in overtime, back to 2008 levels.

Operational and Policy Issues

19. **Police LETG Software** – the software service contract providing the law enforcement records management system has expired. This unexpected cost increase amounts to \$15,000 and needs to be added to the operating budget.
20. **Bemidji Youth Advisory Council** – an increase in the City contribution to this organization may be forthcoming.
21. **Bar closing time** – In 2011 the Council extended bar closing time to 2 am. Should this policy be re-evaluated?
22. **Other Council Items/Policy Requests**

No action is necessary on any of these, but prioritization will be required as there are limited resources.

Develop FMP Assumptions

The most important part of projecting future results are the assumptions made. For the 2016 and future budgets, consideration should be given to the following major assumptions:

1. **Service Levels** – Does the Council want to maintain services at the 2015 level? If that is the case, then staffing levels and budgets will remain as they are in 2015.
2. **Personnel Costs** – this cost accounts for the majority of department budgets. Assumptions related to compensation increases need to be incorporated in the budget. All union contracts expire at the end of 2015, meaning contract negotiations will begin soon. This issue will be discussed in more detail later.

3. Operational budget increases – in order to maintain service levels, operational budget increases need consideration. Costs, such as insurance, fuel and utilities are related to weather or economics, are beyond department control. If no operational increases are budgeted, it effectively reduces service levels over time.
4. Capital budgets – typically departments review their 5 year CIP in late winter. There are many capital related issues listed on pages 3 and 4 which are **not** included in the current CIP.

Revenue Alternatives and levy updates

Options for increasing City revenue to fund new projects, or maintain services, are limited. Based on a recent webinar sponsored by the League of MN Cities, property tax levy limits are already a topic of conversation at the legislature. For Bemidji, raising property taxes is a limited method to increase revenue, especially when you consider a 1% levy increase only generates \$45,000 in new revenue.

In addition to property taxes, two potential new revenue sources are:

1. **Hospitality Tax** – most likely a non-issue for 2015 legislative session. It is unfortunate there is not more community support for this as it would diversify City revenue and allow opportunity for property tax reductions.
2. **Street Improvement Districts** – this method of funding made headway during the last legislative session. If approved this session, this option would also provide revenue diversification and ability to reduce property taxes.
3. **Council ideas?**

The City annexed Northern Township in 2015. If the City is to benefit from the annexation area tax base, it will require a levy increase of 5% in 2016. Keep in mind this levy increase will not increase an individual property owner's taxes. One of the primary reasons for annexation was increasing the City tax base. If the levy is not increased, there would effectively be a tax decrease.

Once again, no decisions are needed today on revenue alternatives; however, the Council can promote either or both of the above options. If not, pressure on property taxes will continue.

Union Contracts and negotiations

As previously stated, all five City union contracts expire on 12/31/15. All unions utilize the city pay scale, which the Council approved last month. Does the Council want the Interim Management Team to gather any information in preparation for future discussions regarding negotiation strategies? We already had one union group contact us expressing a desire to start negotiations. The alternative is to wait until the new City Manager is on board to have these discussions.

Strategic Planning Session

In September 2014 the Council met to discuss challenges, goals and priorities. Attached are pages of this meeting agenda for your reference. Many of the Council goals from that meeting are included in this discussion.

Conclusion

The purpose of this meeting was to provide a list of items needing your prioritization as we move forward. Staff need direction as we realize there are limited resources.

Our next scheduled financial work session is scheduled in April. By that time we will know 2014 financial results and look forward to further discussion of the items from this meeting.

Council Goals/Visions for the Next 2 to 5 Years

- Increase employment opportunities
- Sell vacant city properties
- Rebuild relationship with Bemidji Township
- Develop railroad corridor infrastructure
- Staff/equipment to service annexed areas
- Prioritize spending
- Maintain our "home"
- Facility upgrades, i.e. liquor store, library, council chambers, arena
- Upgrade technology and online services
- Add staff in police, public works, communications, building maintenance
- Water, sewer, streets, WWTF upgrades
- Policies for fire district, street district, budgeting, water conservation, hospitality tax, Fire Marshal
- Improve WWTF
- Improve roads
- Community policing
- Residential/rental cleanup
- Resolve lawsuits
- South shore debt service
- South shore development/land sales
- South shore swimming beach
- South shore lake cleanup
- More active event center
- Prepare for Sanford Center CIP needs

Goals Identified by Department Heads for 2015

- Provide for public input through social media and website
- Complete trail corridor rights-of-way
- South shore lake cleanup
- Implement Honeywell project improvements
- Purchase a sanitary sewer televising system
- Establish a Fire Marshall position
- Reduce part 1 and 2 crimes
- Complete Paul Bunyan/Library Park redevelopment
- Improve online and social media presence
- Implement electronic time keeping system
- Increase liquor store sales

2015 Challenges Identified by Council

Priority 1

- Roads (4)
- Reducing crime (2)
- Maintain/improve streets, water, and sewer (4)
- South shore swimming beach (3)
- Sell south shore lots (2)

Priority 2

- Infrastructure (4)
- Planning for cost of annexation
- Setting fiscal priorities and sticking to them (2)
- Lake cleanup (3)
- Meet south shore bond obligations without raising taxes (2)

Priority 3

- Finance (2)
- South shore park development and lake cleanup (3)
- Resolve annexation lawsuit (2)
- Sell land (2)
- Adequately fund street projects (4)

Priority 4

- Police (2)
- Nelson-Reise arena repairs/new construction
- Sanford Center deficit and leaking issues
- More active event center
- Develop rail corridor (2)

Priority 5

- Rentals
- Homelessness/Panhandlers/Detox
- Public confidence in the way we govern
- Develop rail corridor infrastructure (2)
- Resolve Bemidji Township lawsuit (2)
- Ability to meet land bond payments (2)

Categorical Areas of Operation

Public Works:

- Roads
- Infrastructure
- Maintain/improve streets, water, and sewer
- Adequately fund street projects
- Water, sewer, streets, WWTF upgrades
- Improve WWTF
- Purchase a sanitary sewer televising system

South Shore:

- South shore swimming beach
- Lake cleanup
- South shore park development and lake cleanup

Public Safety:

- Police
- Reducing crime
- Homelessness/panhandlers/detox
- Reduce part 1 and 2 crimes
- Community policing
- Establish a fire Marshall position

Economic Development:

- Sell south shore lots
 - Sell land
 - Develop rail corridor/infrastructure
 - Increase employment opportunities
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Fiscal Responsibility:

- Setting fiscal priorities and sticking to them
- Finance
- Meet south shore bond obligations without raising taxes
- Ability to meet land bond payments
- Planning for cost of annexation
- Prioritize spending
- Increase liquor store sales
- Sanford Center deficit
- Prepare for Sanford Center CIP needs

Legal:

- Resolve annexation lawsuit
- Resolve Bemidji Township lawsuit
- Sanford Center leaking issues
- Complete trail corridor rights-of-way

Political:

- Public confidence in the way we govern
- Rebuild relationship with Bemidji Township
- Policies for fire district, street district, budgeting, water conservation, hospitality tax, Fire Marshal

Technology:

- Upgrade technology and online services
- Provide for public input through social media and website
- Improve online and social media presence

Parks & Recreation:

- Neilson-Reise arena repairs/new construction
- Complete Paul Bunyan/Library Park redevelopment

Other:

- More active event center
- Maintain our home
- Residential/rental cleanup
- Facility upgrades, i.e. liquor store, library, council chambers, arena
- Add staff in police, public works, communications, building maintenance
- Implement electronic timekeeping