

BEMIDJI CITY COUNCIL

Special Work Session Agenda

Monday, March 24, 2014

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



1. CALL TO ORDER / ROLL CALL

2. YEAR 2013 FINANCIAL REVIEW & 2015 BUDGET – Finance Director

3. CONSIDER A RESOLUTION DESIGNATING FUND BALANCES AND TRANSFER OF FUNDS

4. ADJOURNMENT

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



MEMORANDUM

Finance Office

TO: Honorable Mayor and City Council
FROM: Ron Eischens, Finance Director *Ron*
REVIEWED BY: John Chattin, City Manager
DATE: March 24, 2014
RE: 2013 Year-End Financial Review/2015 Budget Direction

Attached are four exhibits summarizing 2013 financial results for various city funds. Utility funds (water, sanitary sewer, storm water and refuse) will be covered in more detail during a work session this fall. Although subject to audit, any adjustments should be minor. The attached exhibits are summaries. If additional detail is desired, please contact me.

- **Exhibit 1** - General Fund
- **Exhibit 2** – City wide summary
- **Exhibit 3** – Liquor Operations
- **Exhibit 4** – Arena Fund

EXHIBIT 1 – General Fund

General Fund revenue exceeded expenses resulting in a surplus of \$270,114. This includes costs incurred for Paul Bunyan Trial sign, lobbying expenses, tree giveaway, downtown electrical repairs and The 106 Group library park archeological study. Of this surplus, nearly half was budgeted for including:

- South Shore Marina of \$100,000 and
- Fire equipment of \$26,759.

Taking these two items into consideration, the remaining surplus of \$143,355 amounts to 1.4% of the budget. All city staff should be commended for working diligently within their budgets.

Revenue that differed significantly from budget amounts is summarized below:

Property Taxes – Property taxes exceeded budget by \$48,935 due to collection of delinquent taxes and prior year market value credit. .

Other Taxes and Fees – Gas and electric franchise fees were below budget by \$57,000. Cable franchise fees and miscellaneous assessments exceeded budget by \$2,389.

Other and Interest – Property insurance dividends exceeded budget by \$20,000 while sale of surplus equipment was \$14,000 higher.

Most General Fund department expenses were under budget. Explanations and amounts for departments over budget follow:

Legal – \$7,411 – caused by budget projection error for paid time off. This issue will be corrected in future budgets.

Fire – \$6,601 – consisted of fuel and equipment repairs exceeding budget. Overage is less than 1% of fire department budget.

GENERAL FUND SUMMARY

The General Fund receives the majority of its funding from property taxes and LGA, which are received twice a year in June and December. The City fund balance policy states “**the city will strive to maintain an unassigned fund balance equal to 50% of the subsequent year’s budgeted expenditures.**” The state auditor recommends a fund balance between 35% and 50%.

The primary purpose for having fund balance is **cash flow**, but cash flow alone does not require a 50% fund balance level. Emergencies, natural disasters and unanticipated expenses are other reasons to maintain fund balance amounts. A good example of how fund balance can be used is the recent \$500,000 loan to the Airport. This activity was not budgeted or anticipated, but the City was able to loan the Airport the money because it had the fund balance to do so and knew the loan would be repaid in a short period of time.

Staff recommend allocating the \$270,114 in 2013 surplus as follows:

- \$136,018 to increase fund balance to \$5,109,261 to comply with current City policy
- \$100,000 for the SE Shore Marina, which was included in the original 2013 City budget and Capital Improvement Plan but not yet constructed.
- \$26,759 to meet fire department requirements under contract with the Rural Fire Association
- \$7,337 to undesignated fund balance for future use as Council deems appropriate

EXHIBIT 2 – City Wide Fund Summary

This schedule summarizes revenue, expense and cash balances for all funds. Revenues exceed expenses on a City wide basis contributing to increased cash balances of \$755,375.

Special revenue funds are established for specific purposes and have designated revenue streams to support their activities. However, the timing of revenue and expenses do not necessarily coincide. During 2013 income exceeded expenses by \$382,000. In future years this timing will reverse itself.

Debt service revenue exceeded expenses by \$455,000. Annual revenue consists of special assessments, property taxes, South Shore land sales, tax increment and rent. The debt service funds have cash reserves of \$3.2 million to cover future bond payments.

Sales tax bonds were sold in February 2011 for \$44 million, proceeds of which were used to pay for The Sanford Center construction. Original projections included the assumption local sales tax growth of 3.5% was necessary to meet bond payments in total over the thirty year term. During the first sixteen years, projected sales tax collections will fall short of meeting bond payments, which is why the City levies property taxes of \$249,000 annually to cover the difference. During the last fourteen years, sales tax collections are projected to exceed bond requirements.

Local sales taxes for park and trail improvements of \$9.8 million was collected by December 2011. Subsequent sales tax revenue is committed to repayment of the \$44 million bonds. Sales tax growth in 2012 was 2% while 2013 was 11.3%. Bond payments remain set as to timing and amount until the year 2021, at which time refinancing or prepayment can occur. If sales tax collections exceed 3.5% in the future, the property tax levy subsidy may be reduced.

Enterprise fund revenue exceeded expenses by \$819,000 due primarily to water/sewer and liquor revenue exceeding their respective expenses. Sanford Center activity listed on exhibit 2 represents non-operating activities such as bond payments, sales tax collections, final construction costs and south shore development costs.

Sanford Center operations (not reflected on this exhibit) came in at a loss of \$367,513 which was \$4,177 better than budget. Donations of \$9,025 were received during 2013 and are currently reserved as part of the "Angel Fund" to attract and promote future events. City transfers to the Sanford Center amounted to \$371,690, which cover operating costs only.

At this time the City is not funding any capital replacement needs for The Sanford Center. While the City cannot afford to finance all City capital infrastructure needs, consideration should be given to providing some level of capital funding for The Sanford Center. The value of the Sanford Center far exceeds the total of all other City buildings combined. Three examples of capital funding levels are:

1. CSL study included \$200,000 annually for capital replacement.
2. \$1 per square foot is often a benchmark used to cover building capital needs. This would amount to \$185,000 for The Sanford Center.
3. Venuworks staff prepared a replacement plan that includes \$1.8 million, which spread over 15 years is \$120,000 annually.

EXHIBIT 3 – Liquor Operations

Liquor stores had another very successful year. Sales increased \$193,000 or 3.8% with operating profits of \$772,000, or 14.5%. Not only are sales increasing, but operating profits rose nearly 1% from last year. To put this in perspective, the statewide average net profit margin for off-sale liquor is 9.3%. Bemidji's profit margin is in the top four stores statewide with populations of 5,000 or more. The credit for this on-going success is the experience and dedication of liquor staff. The primary staff managing the stores have over 30 years of experience and many other staff have extensive experience as well.

During 2013 City liquor profits contributed \$340,000 to reduce property taxes, equal to an 8% tax levy. The liquor fund has \$990,000 in cash, which is more than adequate to meet current liquor needs. On a short term basis this cash could subsidize any future shortfalls on South Shore land bonds or other projects. On a long term basis, liquor cash could be utilized to finance future liquor store expansion/relocation should the Council wish to do so.

Legislation regarding Sunday liquor sales has seen significant discussion in the legislative session. Allowing Sunday liquor sales would significantly impact financial results.

EXHIBIT 4 – Arena Fund Analysis

The Arena had an operating loss of \$78,000, which is an increase of \$15,000 over the prior year due to higher maintenance and personnel costs.

Future capital improvements to the building and ice plant will be necessary in the near future. Due to the 2020 phase out of R-22 refrigerant, the plant, which has been in operation since the 1960's, will need to be replaced. In addition, building improvements will be required. Estimated costs for these upgrades could easily exceed the \$1 million range. The City will be hiring a consultant to evaluate the plant and building to determine more precise costs estimates.

RECOMMENDATION:

Approve the attached resolution authorizing the following:

Designate General Fund balance for:

- Cash flow and other unplanned expenses at \$5,109,261
- Future equipment needs of \$241,200 (same amount from last year plus \$100,000 for Marina costs)
- Carnegie Library of \$100,000 (same amount as last year)
- Fire equipment and building requirements at \$129,104 (\$102,345 from last year plus \$26,759 to meet 2013 requirements)
- Remaining balance of \$258,034 as undesignated, to be used for any future purpose

2015 BUDGET DIRECTION DISCUSSION

While this work session summarizes prior year financial results, more importantly it signals the beginning of a new budget discussion. For the 2015 budget process we would like to focus on long term issues, similar to how we view our five year capital budgets. The State of Minnesota does bi-annual (2 year) budgets, the City should consider a multi-year budget approach. Over the next several months staff will prepare the 2015 budget based on Council direction.

Department Heads have compiled the following issues the Council needs to consider and prioritize. None of the items are currently budgeted for:

1. **South Shore land bond payments** – remaining bond payments total \$7.3 million over the next 14 years, averaging \$500,000 annually. There is currently \$1.4 million in cash to cover bond payments through 2015 before additional funding or land sales will be required.
2. **Birchmont Drive assessments** – there is cash to meet bond payments through 2016, after which time additional City funding will be necessary unless the court case is resolved to include assessments sufficient to meet remaining bond payments. Annual bond payments are \$400,000 through year 2023.
3. **South Shore Beach/Park Development** - the City is pursuing grant funding to assist with clean-up costs while park development remains unfunded. 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. If the \$50,000 is allocated to South Shore Park Development, it will postpone/stop any improvements to neighborhood parks. The point being, additional funding is required to complete park development on the South Shore. Lakebed clean up and park development costs would be in the \$3 million range.
4. **South Shore Marina Maintenance** – Slip rental rates will be set to cover operational costs for annual installation, removal and maintenance of the dock system. These services will be contracted with a qualified vendor.
5. **Capital replacement funding for the Sanford Center** – as previously discussed, what level of funding (\$120,000 to \$200,000) does Council deem appropriate?
6. **Phase II annexation** – Effective January 1, 2015 the City is eligible to annex Phase II of Northern Township. Assuming the mediated settlement agreement is upheld by the Court, the City will not be able to annex Phase II of Bemidji Township until 2018. Proposed additional City costs to service these areas include:
 - a. Street Department employee - estimated cost \$60,000
 - b. Refuse/Utility employee - estimated cost \$60,000
 - c. Building/Rental Inspector - estimated cost \$64,000
 - d. Street Renewal Program – Currently the City funds \$350,000 annually through the property tax levy for a 100 year street rotation program. The average design life of a street is 40 years. Phase I annexation added 7 miles of streets to the City, extending the rotation from 100 to 110 years. Phase II streets extend the rotation to 133 years. Additional street renewal funding of \$100,000 is being requested to reduce the rotation period.
 - e. After the five year phase in period, estimated tax revenue of \$190,000 will be collected from this area. The tax levy needs to increase by approximately 5% to capture the additional property value.

- f. Estimated fee based revenue would be as follows:
 - i. Gas/Electric Franchise fees = \$20,000
 - ii. Cable fee revenue = \$10,000
 - iii. Storm water fees = \$20,000
7. **Fire Marshall/Inspector** – The goal of the Fire Department is to reduce the impact of fire on the community. Two strategies are implemented to do so; emergency response and fire prevention. A well balanced fire prevention program includes public education, code enforcement and fire protection engineering. Currently these functions are performed on a minimal basis, if at all. This position would allow implementation of a more effective fire prevention program with an approximate \$88,000 total cost. The City portion would be \$51,000 with the Rural Fire Association paying the balance of \$37,000.
8. **Auto Theft Grant** – currently pays \$50,000 for a police officer and expires on June 30, 2015. The City will be notified in 2015 if the grant is funded for the next cycle. The grant is more competitive and there is a chance it will not be renewed. If so, will the Council fund this position with property taxes or reduce the police department by one officer? Cost of an officer is approximately \$65,000 annually, with the current police department budget covering the \$15,000 not covered by the grant.
9. **Community Service Officer (CSO)** – During 2013 this officer responded to nearly 1,000 animal calls and handles all animal impound, adoptions, quarantines and maintains the impound facility. In addition, they handle code enforcement regarding dirty yards, deceased animals, rental parking and other neighborhood complaints. These duties reduce the officer's ability to perform community oriented policing duties. Fund an additional CSO, cost of approximately \$65,000.
10. **Building Maintenance Technician** - The City owns many buildings including City Hall, Library, Public Works, Depot, Carnegie, Waste Water Treatment Plant and Fire Station. Routine maintenance is currently performed by various City staff who are not trained on building issues. As an example, the administrative secretary deals with Public Works building heating and cooling controls. The City would benefit from having a dedicated and trained staff person to deal with building maintenance related matters.
11. **Neilson Reise Arena Improvements** – The building and ice plant are in need of significant upgrades in the near future with estimated costs in the \$1 million range. Additional Council discussion will be held to determine the future of this facility.
12. **Railroad Corridor** – any City contribution or subsidy to encourage development in this area?
13. **Honeywell Energy Savings Project** – Staff continue to work with Honeywell to develop this project and plan to meet with Council on April 14th to discuss. One possible outcome is for the City to make a one-time contribution towards energy saving projects to cash flow the projects. If the City decides not to do any projects we will incur costs of \$60,000.
14. **Traffic Calming Measure** – Local grant match of \$80,000 needs to be funded by 2017. City reserves or liquor store profits were mentioned as possible funding sources if the grant was awarded, which it has been.
15. **Fire Station No. 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 available by 2016, requiring borrowing/bonding or internal financing by the City and/or Rural Fire Association.

In addition to the above items, Council may have additional projects or ideas.

Funding Options – Some of the above items are onetime projects, but most are recurring in nature and need on-going funding. Possible funding sources are:

Property Taxes – A 1% increase in property taxes generates approximately \$42,000 annually, which doesn't go far to finance many of the above items. Despite new construction last year, on the South Shore and throughout the City, taxable property value only increased by \$6 million.

1% hospitality tax – would generate approximately \$500,000 annually.

Franchise Fees – The city currently charges a gas/electric franchise fee of 4.5%. The maximum fee allowed is 5%. The remaining ½% would generate \$98,000 annually.

Budget Reallocations – reduce services in one area in order to increase service in another.

Staff do not expect answers at the work session regarding the above issues, but want to provide Council a starting point for discussion. Ultimately the Council will provide direction and prioritize these issues to incorporate into future budget meetings to determine what issues are funded.

CITY OF BEMIDJI - GENERAL FUND BUDGET REPORT

31-Dec-13

DESCRIPTION	YTD ACTUAL	YTD BUDGET	(OVER) UNDER BUDGET	%	ANNUAL BUDGET
<u>REVENUE</u>					
Property Taxes	3,222,210	3,173,275	(48,935)	102%	3,173,275
Other Taxes & Fees	1,053,389	1,108,000	54,611	95%	1,108,000
Licenses & Permits	130,132	116,500	(13,632)	112%	116,500
Intergovernmental	3,302,386	3,300,194	(2,192)	100%	3,300,194
Other & Interest	240,363	205,761	(34,602)	117%	205,761
Fire Revenue	370,373	351,500	(18,873)	105%	351,500
Fines	186,777	192,000	5,223	97%	192,000
Internal Services/Transfers	1,596,478	1,577,055	(19,423)	101%	1,577,055
TOTAL REVENUE	10,102,108	10,024,285	(77,823)	101%	10,024,285
<u>EXPENSES</u>					
<u>GOVERNMENT</u>					
Council	141,761	147,860	6,099	96%	147,860
Administration	286,525	295,222	8,697	97%	295,222
Election	883	900	17	98%	900
Finance	547,695	553,075	5,380	99%	553,075
Assessing	92,960	94,600	1,640	98%	94,600
Legal	326,500	319,089	(7,411)	102%	319,089
Joint Planning Board	86,748	94,185	7,437	92%	94,185
Community Development	7,800	10,000	2,200	78%	10,000
MIS/Technology Systems	68,191	84,501	16,310	81%	84,501
	1,559,063	1,599,432	40,369	97%	1,599,432
<u>PUBLIC SAFETY</u>					
Police	3,615,869	3,700,806	84,937	98%	3,700,806
Fire & Emergency Services	906,270	899,669	(6,601)	101%	899,669
	4,522,139	4,600,475	78,336	98%	4,600,475
<u>STREETS</u>					
Streets	1,409,672	1,523,664	113,992	93%	1,523,664
Engineering & Public Works	398,369	435,557	37,188	91%	435,557
GIS	101,457	103,702	2,245	98%	103,702
	1,909,498	2,062,923	153,425	93%	2,062,923
<u>PARKS</u>					
Parks & Recreation	917,390	950,273	32,883	97%	950,273
Arena Transfer	112,810	112,810	-	100%	112,810
Library	179,385	197,875	18,490	91%	197,875
	1,209,585	1,260,958	51,373	96%	1,260,958
<u>MISCELLANEOUS</u>					
Cable Access Operations	1,214	2,200	986	55%	2,200
Greater Bemidji	25,000	25,000	-	100%	25,000
Contingencies	70,684	120,042	49,358	59%	120,042
Transportation	21,991	22,300	309	99%	22,300
Transfers	141,130	(58,610)	(199,740)	-241%	(58,610)
Sanford Center Operating Transfer	371,690	400,000	28,310	93%	400,000
	631,709	510,932	(120,777)	124%	510,932
TOTAL EXPENSES	9,831,994	10,034,720	202,726	98%	10,034,720
	270,114				

EXHIBIT 1

**CITY OF BEMIDJI
2013 CITY WIDE FUND SUMMARY**

FUND	DESCRIPTION	Actual		Revenue>	12/31/2013
		Revenue	Expense	Expense	CASH BALANCE
101	<u>GENERAL FUND</u>	10,102,108	9,831,994	270,114	6,766,170
Various	<u>SPECIAL REVENUE</u>	3,753,646	3,372,050	381,596	5,785,118
Various	<u>DEBT SERVICE</u>	2,756,246	2,301,135	455,111	3,245,125
<u>ENTERPRISE FUNDS</u>					
601	Water/Sewer	4,903,962	4,363,788	540,174	6,590,641
602	Storm Water	1,178,772	1,239,458	(60,686)	237,591
603	Refuse	397,401	494,776	(97,375)	587,584
604	Sanford Center	3,526,465	3,554,256	(27,791)	336,318
609	Liquor	5,352,097	4,887,588	464,509	989,776
	Total	<u>15,358,697</u>	<u>14,539,866</u>	<u>818,831</u>	<u>8,741,910</u>
GRAND TOTAL		<u><u>31,970,697</u></u>	<u><u>30,045,045</u></u>	<u><u>1,925,652</u></u>	24,538,323
				12/31/12 Cash	<u>23,782,948</u>
				Increase	<u><u>755,375</u></u>

CITY OF BEMIDJI LIQUOR OPERATIONS

DESCRIPTION	2012	2013
SALES	5,147,077	5,340,119
COST OF GOODS	3,716,554	3,800,335
GROSS PROFIT	1,430,523	1,539,784
GROSS PROFIT %	27.8%	28.8%
 OPERATING EXPENSES	 731,674	 767,721
OPERATING PROFIT	698,849	772,063
OPERATING PROFIT %	13.6%	14.5%
<u>OTHER EXPENDITURES</u>		
Transfers to General Fund	(340,000)	(340,000)
Parks Equipment/Improvements		
Store Improvements	(53,129)	(15,532)
Transfers for Grant Matches		
City Park		
Street Project		
Total	(393,129)	(355,532)
Ending Cash Balance	 \$ 588,766	 \$ 989,776

**CITY OF BEMIDJI
ARENA FUND ANALYSIS
31-Dec-13**

Revenue	2010	2011	2012	2013
Ice Rent	153,779	142,365	154,786	155,661
Other	6,360	5,111	6,328	5,603
Total	<u>160,139</u>	<u>147,476</u>	<u>161,114</u>	<u>161,264</u>
Expenses				
Personnel Costs	85,545	82,110	88,752	94,001
Supplies & Maintenance	32,883	50,519	45,309	53,295
Other Services & Charges	74,761	76,290	76,081	78,397
Admininstration	14,220	14,220	13,848	13,853
Total Expenses	<u>207,409</u>	<u>223,139</u>	<u>223,990</u>	<u>239,546</u>
Operating Income/(Loss)	(47,270)	(75,663)	(62,876)	(78,282)
Non-Operating Items				
Transfer from General Fund	88,330	88,330	88,330	112,810
Capital Improvements Costs	10,084	9,675	8,610	
Cash Balance	<u>(12,393)</u>	<u>(9,182)</u>	<u>38,357</u>	<u>45,600</u>

RESOLUTION NO. _____

A RESOLUTION DESIGNATING FUND BALANCES AND TRANSFER OF FUNDS

WHEREAS, on March 24, 2014, 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 General Fund balances in accordance with the following schedule:

- For cash flow and other unplanned expenses of \$5,109,261
- For Fire Department equipment of \$129,104
- For Carnegie Library of \$100,000
- For Equipment needs of \$241,200

BE IT FURTHER RESOLVED, the above designations are effective as of December 31, 2013.

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: March 24, 2014

ATTEST:

APPROVED:

Kay M. Murphy, City Clerk

Rita C. Albrecht, Mayor