

BEMIDJI CITY COUNCIL

Work Session Agenda

Monday, April 10, 2017

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



1. CALL TO ORDER / ROLL CALL

2. Consider a Resolution in Support of Increasing Local Government Aid in the 2017 Legislative Session

3. 2016 YEAR-END FINANCIAL REVIEW & 2018 FINANCIAL MANAGEMENT PLAN
 - Consider a Resolution Designating Fund Balances

4. ADJOURNMENT

NOTE: Please switch all cellphones and pagers to a non-audible function during Council and Committee meetings.

RESOLUTION NO. _____

Resolution in Support of Increasing Local Government Aid in the 2017 Legislative Session

WHEREAS, Local Government Aid (LGA) is a critical need for our city; and

WHEREAS, LGA provides funding to restrain property taxes on homeowners and businesses; and

WHEREAS, LGA helps provide important services such as public safety, infrastructure, and fire protection; and

WHEREAS, an increase in LGA would help the City of Bemidji do the following: maintain public services levels, offset for tax exempt property values, keep property tax rates reasonable; and

WHEREAS, the state of Minnesota's projected budget surplus stands at \$1.65 billion; and

WHEREAS, LGA is funded well below the level that was funded in 2002; and

WHEREAS, in a time of surplus, the state should be able to provide an increase in aid to cities who are facing increased costs due to infrastructure needs, state mandates and inflation in the costs of labor, goods, and services; and

WHEREAS, no Omnibus Tax Bill was passed by the legislature in 2015 or 2016, thus freezing the LGA appropriation.

THEREFORE, BE IT RESOLVED that the City of Bemidji supports a permanent increase in the base appropriation for Local Government Aid of \$45.5 million as proposed in HF 672/SF 476, and urges adoption of this proposal by the House and Senate.

BE IT FURTHER RESOLVED that a copy of this resolution be sent to the following: the legislators representing the City of Bemidji, Speaker of the House Rep. Kurt Daudt, Senate Majority Leader Sen. Paul Gazelka, House Tax Chair Rep. Greg Davids, Senate Tax Chair Sen. Roger Chamberlain, and Governor Mark Dayton.

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

Ayes:

Nays:

Absent:

Passed:

ATTEST:

APPROVED:

Kay M. Murphy, City Clerk

Rita C. Albrecht, Mayor



Finance Office

MEMORANDUM

TO: Honorable Mayor and City Council
FROM: Ron Eischens, Finance Director
REVIEWED BY: Nate Mathews, City Manager

DATE: April 10, 2017
RE: 2016 Year-End Financial Review
2018 Financial Management Plan

The purpose of this work-session is two-fold, review 2016 financial results and preview 2018 financial management plan (budget) issues. Attached are three exhibits summarizing 2016 financial results for city funds. Although subject to audit, any adjustments should be minor.

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

EXHIBIT 1 – General Fund – (Primary Operating Fund)

For 2016, the General fund had an anticipated deficit. The good news is the deficit amounted to \$145,118 when it was budgeted for \$1,045,000 due to the Nymore Fire station construction. The nearly \$900,000 difference is summarized below:

- Revenues exceeded original budget by **\$663,000**:
 - \$56,000 – Property Taxes – collection of prior year delinquent taxes
 - \$102,000 - MSA and Police state aid – higher amounts received
 - \$228,000 - Various
 - \$141,000 wind storm damage reimbursement
 - \$13,000 airport loan payment
 - \$35,000 property and liability insurance dividend
 - \$6,000 lodging tax administrative fee
 - \$16,000 parking administrative fee
 - \$52,000 miscellaneous
 - \$67,000 - Cable & Franchise Fees – higher amounts collected
 - \$39,000 - Rural Fire Fees – higher amount collected

- \$67,000 - Police forfeitures – large long term case resolved – 2017 budget increase recommended to purchase body camera's
- \$(22,000) – fines – parking enforcement position was not always filled resulting in lower parking tickets issued
- \$ 81,000 - Sale of Assets – land sales and various equipment
- \$ 45,000 – Transfers – higher engineering time allocated to projects

Approximately \$289,000 or 44% of the above revenue were one-time occurrences. (storm damage reimbursement, forfeitures and asset sales)

- Department expenses were under budget by **\$237,000** as follows:
 - \$ 20,000 – Administration – lower personnel costs
 - \$ 38,000 – Finance - grant administration reimbursement and various line items under budget
 - \$ 21,000 – Legal – various line items under budget
 - \$ 10,000 – Community Development – funds not spent
 - \$ 35,000 – Police – various line items under budget
 - \$ 16,000 – Fire – various items under budget
 - \$228,000 – Streets – lower snow fall winter resulting in reduced overtime, fuel, supplies. Various other line items under budget
 - \$ 38,000 – Engineering – various line items under budget
 - \$ (73,000) – Parks/Recreation – wind storm cleanup costs which were reimbursed - see wind damage reimbursement under revenue items
 - \$102,000 - Library - \$75,000 HVAC system upgrade paid for by Energy Savings Project and \$27,000 in utility and maintenance savings
 - \$ (3,000) – various other
 - \$(195,000) – Transfers – Energy savings and equipment costs transferred to Honeywell Energy Savings Fund

Due to revenue and expense budget differences, the 2018 budget will be adjusted to more accurately reflect revenue and expenses. Certain revenue items were already increased for the 2017 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 a fund balance equal to 50% of the subsequent year’s budgeted expenditures.”**

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 adequate fund balance levels. Internal financing

of the Nymore Fire Station is as a good example why the City maintains 50% fund balance levels.

Staff recommend allocation of current fund balances and 2017 budget amendments as follows:

- \$181,867 of designated fund balance for fire equipment transferred to designated balance for cash flow since City's contractual fire capital needs were met in 2016 with the construction of Nymore Fire station
- \$14,246 from undesignated to designated fund balance to meet the 50% City policy requirement
 - The above action results in undesignated fund balance of \$30,000
- \$67,000 added as a 2017 budget increase to purchase police body camera's. This amount represents police forfeitures received that were not budgeted. This issue will be presented at a future Council meeting for approval.

EXHIBIT 2 – City Wide Fund Summary

This schedule summarizes revenue, expense and cash balances for all City funds. Revenue exceed expense on a City wide basis contributing to increased cash balances of \$1.4 million.

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 each year. During 2016 expenses exceeded income by \$281,000. In future years, this timing will reverse. This grouping includes the permanent improvement fund, which accounts for street and utility construction projects. Designated reserves here included \$167,000 for the East West Trail, now completed. The remaining balance of reserves were used to cover capital costs including the special assessment portion of annual street projects, which is no longer necessary because assessments collected are sufficient to cover assessments.

Debt service funds track the issuance and expenditures related to City debt. Revenue consists of special assessments, property taxes, land sales, tax increment, energy savings and rent. Expenses exceeded revenue by \$27,000. The City paid off nearly \$3.5 million worth of bonds in January 2017, so debt service cash balances are lower in 2017.

Enterprise fund revenue exceeded expenses by \$2.3 million due primarily to utility and liquor activities showing profits, as they should. These profits reduce property taxes and pay for replacement/repairs of infrastructure and facilities in future years. Sanford Center activity listed here represent non-operating items such as bond payments, sales tax collections, repair and professional services related to water leaks and south shore development costs.

EXHIBIT 3 – Liquor Operations

City liquor stores had another successful year with sales ranking 12th statewide including metro area stores. Sales increased 2.0% with operating profits of \$673,000. Profit trends are falling, reflecting aging stores, stagnant customer counts and limited floor space for new products.

During 2016, liquor profits contributed \$390,000 to reduce property taxes, equal to a 7% tax levy. The liquor fund has \$1.6 million in cash, of which \$500,000 is dedicated to future liquor expansion and/or improvements. Future profits can be invested in liquor expansion/relocation and other projects as approved by Council.

Legislation regarding Sunday liquor sales was approved. A work session in May will focus on this topic.

Sanford Center Issues and Water Leak

The City received final settlement of \$130,000 in January 2017 toward water leak issues at the Sanford Center. After legal and consultant fees are paid, the City has \$91,000 remaining to fix this issue.

As with all business operations, The Sanford Center requires cash reserves to operate effectively. The City transfers \$400,000 to cover operational costs, generating a \$19 million economic impact. However, The Sanford Center operating account is not adequately funded to meet monthly expenses. According to the contract, the balance should be \$250,000, or 1/12th of annual expenses. Once the State Auditor investigation is complete and reimbursement from Venuworks received, maintenance of adequate operating cash may require additional transfers from the City.

RECOMMENDATION:

Approve the attached resolution designating fund balance for:

- General Fund cash flow and other unplanned expenses at \$5,604,860
- Eliminate \$181,867 of designated fund balance for fire equipment since fire contractual capital needs have been met with the Nymore Fire Station construction
- Remove designated fund balance for equipment from the Permanent Improvement Fund since East/West Trail is completed and capital/assessment needs are no longer necessary. The only designated fund balance remaining will be \$350,000 for future parking improvements.

2018 Financial Management Plan Process Discussion

Projected impacts to the 2018 financial management plan and tax levy are as follows:

- **Personnel costs** – based on settled union contracts, pay increases will be 2.5% along with a \$90 increase in monthly benefit contributions has a projected cost of \$190,000. Workers compensation premium increases estimated at \$32,000.
- **LGA Increase** – Unlikely at this time ☹ City LGA levels have been flat since 2014. Not planning any increase in 2018.
- **JPB converted to City Department** – This transition may take place in 2017 but is not budgeted. However, the City can utilize contingencies or reserves to carry this 2017 cost. Financial impact for 2018 will depend on staff restructuring.
- **1.5% Hospitality Tax** – community education on this topic will continue through this fall. If community supports this, shoot for it to be a 2018 legislative agenda item, utilized to reduce City property taxes by approximately 17%.
- **Revenue Increases/Expense reductions** – due to the recent budget surplus, a closer review of these items will result in tax levy savings.
- **Sanford Center Operations** – the annual operational “investment” for this facility has not increased since 2012. Equipment and building maintenance costs will increase as the building ages.
- **Other items.**
 - GIS maintenance – new license agreement of \$18,000
 - Salary study in preparation for 2018 union negotiations – cost of study not yet known, currently getting estimate
 - City Website upgrade and maintenance - \$15,000 to \$20,000 cost
 - Irvingboro TIF termination – increase tax base by **3.1%**
 - Railroad corridor – consultant costs expected to be high due to complexity and site contamination. In addition, City infrastructure required is not budgeted or known.
 - Ladder Truck – the Fire department has this \$1 million equipment purchase included in the 2019 Capital Improvement plan. The City may internally finance this acquisition, similar to the Nymore Fire station.

According to the City assessor, new construction added 1.2% in tax value for 2018, which will offset a portion of any levy increase as well as the 3.1% Irvingboro tax increment district decertification. In other words, the levy could increase 4.3% with no impact on City tax rates due to a larger tax base.

City staff will continue to develop the 2018 financial management plan based on the above assumptions. No Council action is necessary at this time but direction on any of these items or additional topics not mentioned would be beneficial. A work session on June 26th is scheduled to revisit this topic.

RESOLUTION NO.

A RESOLUTION DESIGNATING FUND BALANCES

WHEREAS, on April 10, 2017, the City Council considered the designation of fund balances.

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

General Fund

- For cash flow and other unplanned expenses of \$5,604,860; representing 50% of 2017 General Fund Budget
- Reduce balance designated for Fire Department equipment to zero

Permanent Improvement Fund

- Reduce balance designated for East/West Trail and Capital needs to zero

BE IT FURTHER RESOLVED, the above designations are effective as of December 31, 2016.

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 10, 2017

ATTEST:

APPROVED:

Kay M. Murphy, City Clerk

Rita C. Albrecht, Mayor

CITY OF BEMIDJI - GENERAL FUND BUDGET REPORT

31-Dec-16

DESCRIPTION	YTD ACTUAL	ORIGINAL BUDGET	(OVER) UNDER BUDGET	%
REVENUE				
Property Taxes	3,708,493	3,652,716	(55,777)	102%
Other Taxes & Fees	1,267,559	1,200,200	(67,359)	106%
Licenses & Permits	119,465	123,500	4,035	97%
Intergovernmental	3,741,006	3,638,583	(102,423)	103%
Other & Interest	445,135	133,441	(311,694)	334%
Fire Revenue	413,974	375,000	(38,974)	110%
Fines	228,401	183,000	(45,401)	125%
Internal Services/Transfers	1,652,159	1,607,055	(45,104)	103%
TOTAL REVENUE	11,576,192	10,913,495	(662,697)	106%
EXPENSES				
GOVERNMENT				
Council	136,625	142,770	6,145	96%
Administration	296,501	316,692	20,191	94%
Election	11,613	12,400	787	94%
Finance	512,728	550,790	38,062	93%
Assessing	99,138	99,138	-	100%
Legal	352,480	373,232	20,752	94%
Joint Planning Board	110,249	116,485	6,236	95%
Community Development	-	10,200	10,200	0%
MIS/Technology Systems	95,899	89,301	(6,598)	107%
	1,615,233	1,711,008	95,775	94%
PUBLIC SAFETY				
Police	3,980,634	4,015,706	35,072	99%
Fire & Emergency Services	2,071,536	2,087,671	16,135	99%
	6,052,170	6,103,377	51,207	99%
STREETS				
Streets	1,331,309	1,559,360	228,051	85%
Engineering & Public Works	420,820	458,857	38,037	92%
GIS	104,127	99,427	(4,700)	105%
	1,856,256	2,117,644	261,388	88%
PARKS				
Parks & Recreation	1,033,881	961,183	(72,698)	108%
Arena Transfer	127,810	127,810	-	100%
Library	176,983	278,837	101,854	63%
	1,338,674	1,367,830	29,156	98%
MISCELLANEOUS				
Cable Access Operations	1,712	2,200	488	78%
Greater Bemidji	30,000	30,000	-	100%
Contingencies	39,922	37,805	(2,117)	106%
Transportation	19,213	15,500	(3,713)	124%
Transfers	368,130	173,130	(195,000)	213%
Sanford Center Operating Transfer	400,000	400,000	-	100%
	858,977	658,635	(200,342)	130%
TOTAL EXPENSES	11,721,310	11,958,494	237,184	98%

EXHIBIT 1

Expenses > Revenue

145,118

**CITY OF BEMIDJI
2016 CITY WIDE FUND SUMMARY**

FUND	DESCRIPTION	Actual		Revenue>	12/31/2016
		Revenue	Expense	Expense	CASH BALANCE
101	GENERAL FUND** (**includes fair market investment adjustment of \$84,673)	11,491,519	11,721,310	(229,791)	6,799,501
Various	SPECIAL REVENUE	5,420,801	5,702,241	(281,440)	5,749,986
Various	DEBT SERVICE	5,838,728	5,866,198	(27,470)	2,260,822
ENTERPRISE FUNDS					
601	Water/Sewer	5,529,401	4,260,626	1,268,775	8,899,285
602	Storm Water	1,285,462	1,174,304	111,158	991,861
603	Refuse	458,711	286,220	172,491	548,774
604	Sanford Center	3,848,255	3,418,736	429,519	811,696
609	Liquor	5,837,547	5,548,176	289,371	1,568,046
	Total	16,959,376	14,688,062	2,271,314	12,819,662
GRAND TOTAL		39,710,424	37,977,811	1,732,613	27,629,971
				12/31/15 Cash	26,203,824
				Increase	1,426,147

**CITY OF BEMIDJI
LIQUOR OPERATIONS**

DESCRIPTION	2014	2015	2016
SALES	5,556,520	5,700,262	5,816,026
COST OF GOODS	3,905,273	4,044,785	4,155,609
GROSS PROFIT	1,651,247	1,655,477	1,660,417
GROSS PROFIT %	29.7%	29.0%	28.5%
OPERATING EXPENSES	898,573	946,785	987,865
OPERATING PROFIT	752,674	708,692	672,552
OPERATING PROFIT %	13.5%	12.4%	11.6%
<u>OTHER EXPENDITURES</u>			
Transfers to General Fund	(390,000)	(390,000)	(390,000)
Parks Equipment/Improvements			
Store Improvements	(12,169)	(8,818)	(50,946)
Transfers for Grant Matches			
City Park			
Street Project	(21,976)	(5,622)	(7,755)
Total	(424,145)	(404,440)	(448,701)
Ending Cash Balance	\$ 1,389,807	\$ 1,246,347	\$ 1,568,046

EXHIBIT 3