

CITY COUNCIL PROCEEDINGS

BEMIDJI, MINNESOTA

Work Session – Monday, April 11, 2016

Pursuant to due call and notice, a work session of the City Council of the City of Bemidji, Beltrami County, Minnesota, was held on Monday, April 11, 2016, at 5:30 p.m. in the Conference Room of City Hall, Mayor Albrecht presiding.

Upon roll call, the following Councilmembers were declared present: Albrecht, Meehlhause, Johnson, Olson, Erickson Absent: Hellquist, Larson

Staff Present: Finance Director Ron Eischens, City Attorney Alan Felix, Police Chief Mike Mastin, Deputy City Clerk Michelle Miller

Mayor Albrecht stated that the purpose of the meeting was for the 2015 Financial Review.

2015 Financial Review

Finance Director Ron Eischens summarized the 2015 financial results for various funds. He noted that the general fund revenue exceeded expenses resulting in a surplus of \$312,460. The total surplus represents less than 3% of the general fund budget. The last time the City had a deficit was 2008. The deficit from that year was accountable, in part, to reduced LGA funding from the state. Of this surplus, \$38,413 was anticipated to meet the City's share of fire equipment based on the Rural Fire Contract.

Revenue and expenses that differed significantly from budget are described below:

- Gas/electric and cable franchise fees exceeded budget by \$47,000 with the balance of \$5,000 representing assessments for a total of \$52,000
- Administration – \$25,000, savings from lower City Manager salary and supplies
- Finance – \$38,000 savings from not purchasing electronic time keeping system of \$20,000 while grant administration services accounted for \$18,000
- Police – \$111,000 savings, personnel of \$35,000, supplies \$69,000, other \$7,000
- Fire – \$40,000 deficit due to call back time paid at base pay level to firefighters of \$29,000 not budgeted. Call back occurs when firefighters are called back to duty outside or regularly schedule shifts for a fire call. Correction will be made for 2016 and future budgets. In addition, paid on call firefighter pay exceeded budget by \$11,000.
- Streets – \$150,000 savings, lower overtime of \$44,000, supplies/maintenance of \$101,000 and other of \$5,000. Overtime savings were the due to the lack of snow events, which will not always be the case.
- Engineering – \$53,000 savings, lower personnel costs of \$18,000, supplies and maintenance of \$16,000, other of \$19,000.
- Parks – \$46,000 savings, maintenance of \$15,000 and lower capital costs of \$31,000.
- Library – \$29,000 savings, chairs not purchased of \$10,000 and \$19,000 in maintenance.

Sanford Center Operating Transfer – transfers towards Sanford Center operations is set at the Sanford Center budgeted deficit of \$325,625. The City budget includes \$400,000 for this purpose. This difference creates a \$74,375 savings and is a significant part of the budget surplus.

The Sanford Center has identified several unbudgeted needs including; 1) \$50,000 to upgrade building wireless capacity to meet conference needs, 2) \$30,000 to replace tableware and small kitchen items, 3) \$10,000 for computer/technology upgrades, and 4) \$14,375 for design costs for concourse improvements for a total of \$74,375.

It was noted that the total for the above is actually \$104,375; therefore, Council removed the \$30,000 to replace tableware and small kitchen items.

General Fund Summary

Eischens stated that 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. Emergencies, natural disasters and unanticipated expenses are other reasons to maintain adequate fund balance levels.

Internal financing of the Nymore Fire Station is as an example of why the City maintains 50% fund balance levels. Construction of the fire station in 2016 will consume approximately \$1 million of fund balance. This will be replenished over time as the City's fire department capital requirements over the next eight years will already be met by the construction of this Fire Station.

Staff recommend allocating the \$312,460 surplus as follows:

- \$38,413 to meet future capital requirements under contract with the Rural Fire Association. This will be utilized in 2016 as part of the Nymore Fire Station internal financing.
- \$74,375 to Sanford Center for items identified above.
- \$66,318 to increase designated fund balance to meet the 50% City policy requirement.
- \$133,354 to undesignated fund balance, increasing this category to \$340,293. This will be utilized in 2016 as a portion of the internal financing for the Nymore Fire Station. The remaining internal financing will come from reducing designated fund balance below the 50% level.

Erickson requested that a dog watering/water bottle filling station be included in the South Shore Park design during the construction phase. The cost for that amenity is approximately \$10,000. Eischens recommended increasing the Refuse Fund transfer to South Shore Park by \$10,000 to accommodate that request.

City-wide Fund Summary

Eischens noted that revenues exceed expenses on a City-wide basis contributing to increase cash balances of \$1.3 million. Debt service revenue exceeded expenses by \$2.2 million, primarily the result of Energy savings projects paid for during 2015 of \$1.5 million, 2) pay off of 2005 bonds totaling \$440,000 and 3) refund of \$220,000 in Birchmont Drive assessments as ordered by the courts. In the past, several bonds were paid off early, resulting in savings totaling \$600,000. These dollars must be used towards payment of other City bonds. During 2017 this savings will be budgeted towards payment of South Shore bonds.

Liquor Store Operations

Eischens stated that the City liquor stores had another successful year with revenue ranking 14th statewide which included the metro area stores. Sales increased 2.6% with operating profits of \$722,000 or 14%. In 2015, City liquor profits contributed \$340,000 to reduce property taxes, equal to a 7% tax levy. The liquor fund has \$1.5 million in cash, of which \$500,000 is dedicated to future liquor expansion and/or improvements. Conversations continue regarding liquor store expansion.

South Shore Park

Over the last few months the Council has discussed and approved plans for this new Park. Estimated costs are budgeted at \$600,000, with funding from a combination of accumulated refuse and liquor profits.

Based on projected Refuse and Liquor financial needs, staff recommend the \$600,000 South Shore Park funding be met as follows:

- \$400,000 - Refuse Fund
- \$200,000 - Liquor Fund

Based on the discussion above, the resolution below will include the additional \$10,000 to the Refuse Fund for a total of \$410,000.

Sanford Center Water Leak

The City spent time and resources to repair water leaks at the Sanford Center. Based on legal and professional services, contractor payments as well as storm water fees on vacant lots, the City needs to transfer \$88,000 to the South Shore Development Fund to offset these costs. Staff recommends this amount be taken from liquor profits.

Recommendation

Eischens recommends the Council approve a resolution designating fund balance for:

- General Fund cash flow and other unplanned expenses at \$5,408,747 (50% of 2016 budgeted expenses less Nymore Fire Station)

- Fire capital requirements of \$181,867 (\$143,454 from last year plus \$38,413 to meet 2015 requirements)

Transfer/Payment of funds as follows:

- \$410,000 from Refuse to South Shore Park
- \$200,000 from Liquor to South Shore Park
- \$88,000 from Liquor to South Shore Development Fund
- \$74,375 from General Fund to Sanford Center Operating fund

RESOLUTION NO. 6006: Designating Fund Balances and Transfer of Funds was offered by Councilmember Erickson, who moved its adoption, and upon due second by Councilmember Meehlhouse was passed by unanimous vote.

2017 Financial Management Plan (FMP) Process

Eischens provided the following for consideration to the 2017 budget and tax levy as follows:

- **Personnel costs** – based on settled union contracts for 2017, staff pay increases will be 2.25% along with a \$90 increase in monthly benefit contributions, projected cost of \$200,000, levy increase of 4%.
- **South Shore Debt** – utilize \$600,000 of bond savings towards future South Shore bond payments. As land sales are finalized over the next few months, the bond shortfall amount will become clearer.
- **Birchmont Drive**– bond prepayment is available in February 2017 utilizing water/sewer reserves, saving \$370,000 in future interest costs. Doing so will require a larger utility rate increase.
- **Phase II Annexation Northern Township** – in order to generate new tax revenue from the annexation area, the levy needs to increase \$212,000, or 4.4%. This new revenue will be utilized to provide services and future road improvements to the annexed area as well as pay Northern Township the required revenue sharing. The annexation agreement states the City pay Northern Township 80% of taxes collected in 2017 on Phase II property, or approximately \$100,000. Raising the tax levy to capture this new tax base does not mean a property owner's City taxes will increase. If property values stay the same, City taxes should remain the same. However, annexed Township residents will see a tax increase as the higher City tax rate is phased in over four years.
- **Other miscellaneous items**
 - GIS maintenance – the new website allows the ability to edit information in the field to update the data base at a cost of \$2,500
 - Downtown Gateway arch – \$40,000 construction match

According to the City assessor, property values increased 3.8% for 2017, which will offset a portion of the levy increase. Eischens anticipates to bring the 2017 Budget to council in late May or early June.

ADJOURN

There being no further business, motion by Meehlhouse, seconded by Johnson, to adjourn the meeting. Motion carried. Meeting adjourned at 6:20 p.m.

Respectfully submitted,



Michelle R. Miller
Deputy City Clerk