

**BEMIDJI CITY COUNCIL**  
**Work Session Agenda**  
**Monday, April 11, 2016**

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



1. CALL TO ORDER / ROLL CALL
  
2. 2015 FINANCIAL REVIEW
  
3. 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*  
**DATE:** April 11, 2016  
**RE:** 2015 Year-End Financial Review

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Attached are three exhibits summarizing 2015 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)**

We have positive news for 2015, revenue exceeded expenses resulting in a surplus of \$312,460. Reasons include: 1) certain revenue items exceeded budget, 2) certain expense items were lower than budget, and 3) some budgeted capital items were not purchased or were lower than budget. Details explaining the differences between budget and actual follows. It takes a team effort to obtain a surplus. City staff should be commended for working diligently to stay within their budgets.

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

**Other Taxes and Fee Revenue** – \$52,000 – Gas/electric and cable franchise fees exceeded budget by \$47,000 with the balance of \$5,000 representing assessments

**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. Total of \$74,375.

## **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 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 mentioned on page 2.
- \$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.

## **EXHIBIT 2 – City Wide Fund Summary**

This schedule summarizes revenue, expense and cash balances for all City funds. Revenues exceed expenses on a City wide basis contributing to increased cash balances of \$1.3 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 2015 income exceeded expenses by \$616,000. In future years this timing will reverse.

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 \$2.2 million and were the result of: 1) 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.

Enterprise fund revenue exceeded expenses by \$2.8 million due primarily to utility and liquor activities showing profits, as they should. These profits are used to reduce property taxes and pay for replacement/repairs of infrastructure and facilities in future years. Refuse cash balances amount to \$783,000, some of which will be used to fund South Shore Park, discussion to follow. Sanford Center activity listed here represents 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 14<sup>th</sup> statewide which includes metro area stores. Sales increased 2.6% with operating profits of \$722,000. Discount store revenue was impacted by Irvine Avenue street construction during the summer as customer counts were down. Credit for this on-going success is the experience, dedication and hard work of liquor staff. Some staff restructuring was made in the organization to retain experienced employees as well as planning for future transitions.

During 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. Some cash will be used for South Shore Park, to be discussed later. On a long term basis, future profits can be used for liquor store expansion/relocation and other projects as approved by Council.

Legislation regarding Sunday liquor sales was heavily promoted during last year's legislative session and will likely be raised again. Being open on Sunday will impact financial results.

#### **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

#### **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 recommend this amount be taken from liquor profits.

**RECOMMENDATION:**

Approve the attached 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:

- \$400,000 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

**2017 Financial Management Plan Process Discussion**

Primary impacts to the 2017 budget and tax levy are 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, 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.

# CITY OF BEMIDJI - GENERAL FUND BUDGET REPORT

31-Dec-15

DESCRIPTION	YTD ACTUAL	YTD BUDGET	(OVER) UNDER BUDGET	%	ANNUAL BUDGET
<u>REVENUE</u>					
Property Taxes	3,429,766	3,417,937	(11,829)	100%	3,417,937
Other Taxes & Fees	1,310,421	1,258,200	(52,221)	104%	1,258,200
Licenses & Permits	124,819	130,500	5,681	96%	130,500
Intergovernmental	3,688,327	3,686,885	(1,442)	100%	3,686,885
Other & Interest	228,209	212,441	(15,768)	107%	212,441
Fire Revenue	372,208	372,000	(208)	100%	372,000
Fines	168,740	177,956	9,216	95%	177,956
Internal Services/Transfers	1,632,341	1,637,055	4,714	100%	1,637,055
<b>TOTAL REVENUE</b>	<b>10,954,831</b>	<b>10,892,974</b>	<b>(61,857)</b>	<b>101%</b>	<b>10,892,974</b>
<u>EXPENSES</u>					
<u>GOVERNMENT</u>					
Council	141,047	139,270	(1,777)	101%	139,270
Administration	280,522	305,432	24,910	92%	305,432
Election	903	1,400	497	65%	1,400
Finance	513,534	551,890	38,356	93%	551,890
Assessing	96,250	97,600	1,350	99%	97,600
Legal	342,400	359,079	16,679	95%	359,079
Joint Planning Board	92,412	114,185	21,773	81%	114,185
Community Development					
MIS/Technology Systems	95,362	87,501	(7,861)	109%	87,501
	1,562,430	1,656,357	93,927	94%	1,656,357
<u>PUBLIC SAFETY</u>					
Police	3,680,886	3,791,662	110,776	97%	3,791,662
Fire & Emergency Services	1,131,544	1,091,371	(40,173)	104%	1,091,371
	4,812,430	4,883,033	70,603	99%	4,883,033
<u>STREETS</u>					
Streets	1,472,308	1,622,560	150,252	91%	1,622,560
Engineering & Public Works	409,688	462,857	53,169	89%	462,857
GIS	106,554	109,727	3,173	97%	109,727
	1,988,550	2,195,144	206,594	91%	2,195,144
<u>PARKS</u>					
Parks & Recreation	951,043	997,083	46,040	95%	997,083
Arena Transfer	505,210	505,210	-	100%	505,210
Library	176,981	206,351	29,370	86%	206,351
	1,633,234	1,708,644	75,410	96%	1,708,644
<u>MISCELLANEOUS</u>					
Cable Access Operations	1,509	2,200	691	69%	2,200
Greater Bemidji	25,000	25,000	-	100%	25,000
Contingencies	15,100	17,805	2,705	85%	17,805
Transportation	12,161	12,500	339	97%	12,500
Transfers	266,332	266,332	-	100%	266,332
Sanford Center Operating Transfer	325,625	400,000	74,375	81%	400,000
	645,727	723,837	78,110	89%	723,837
<b>TOTAL EXPENSES</b>	<b>10,642,371</b>	<b>11,167,015</b>	<b>524,644</b>	<b>95%</b>	<b>11,167,015</b>

SUPRLUS

**312,460**

EXHIBIT 1

**CITY OF BEMIDJI  
2015 CITY WIDE FUND SUMMARY**

FUND	DESCRIPTION	Actual		Revenue>	12/31/2015
		Revenue	Expense	Expense	CASH BALANCE
101	<u>GENERAL FUND</u>	10,954,831	10,642,371	312,460	7,142,354
Various	<u>SPECIAL REVENUE</u>	8,626,646	8,010,234	616,412	5,756,401
Various	<u>DEBT SERVICE</u>	2,290,216	4,523,385	(2,233,169)	1,816,150
<b><u>ENTERPRISE FUNDS</u></b>					
601	Water/Sewer	5,396,770	3,560,219	1,836,551	7,812,979
602	Storm Water	1,229,494	984,133	245,361	826,972
603	Refuse	426,885	251,531	175,354	783,116
604	Sanford Center	3,109,176	2,925,942	183,234	534,405
609	Liquor	5,720,445	5,340,093	380,352	1,531,447
	Total	<u>15,882,770</u>	<u>13,061,918</u>	<u>2,820,852</u>	<u>11,488,919</u>
<b>GRAND TOTAL</b>		<u>37,754,463</u>	<u>36,237,908</u>	<u>1,516,555</u>	<b>26,203,824</b>
				12/31/14 Cash	<u>24,886,461</u>
				Increase	<u>1,317,363</u>



**CITY OF BEMIDJI  
LIQUOR OPERATIONS**

<b>DESCRIPTION</b>	<b>2014</b>	<b>2015</b>
<b>SALES</b>	5,556,520	5,700,257
<b>COST OF GOODS</b>	3,905,273	4,043,125
<b>GROSS PROFIT</b>	1,651,247	1,657,132
<b>GROSS PROFIT %</b>	29.7%	29.1%
<b>OPERATING EXPENSES</b>	898,573	935,528
<b>OPERATING PROFIT</b>	752,674	721,604
<b>OPERATING PROFIT %</b>	13.5%	12.7%
<b><u>OTHER EXPENDITURES</u></b>		
Transfers to General Fund	(340,000)	(340,000)
Parks Equipment/Improvements		
Store Improvements	(12,169)	(8,818)
Transfers for Grant Matches		
City Park		
Street Project	(21,976)	(5,622)
<b>Total</b>	(374,145)	(354,440)
<b>Ending Cash Balance</b>	<b>\$ 1,387,915</b>	<b>\$ 1,531,447</b>

# RESOLUTION NO. 5941

## A RESOLUTION DESIGNATING FUND BALANCES AND TRANSFER OF FUNDS

**WHEREAS**, on April 11, 2016, 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 fund balances in accordance with the following schedule:

### General Fund

- For cash flow and other unplanned expenses of \$5,408,747
- For Fire Department equipment of \$181,867

**BE IT FURTHER RESOLVED**, the following transfers between funds are hereby authorized:

- \$400,000 from Refuse to South Shore Park
- \$200,000 from Liquor to South Shore Park
- \$88,000 from Liquor to Sanford Center/South Shore Development Fund
- \$74,375 to Sanford Center operating fund

**BE IT FURTHER RESOLVED**, the above designations are effective as of December 31, 2015.

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 11, 2016

ATTEST:

APPROVED:

\_\_\_\_\_  
Kay M. Murphy, City Clerk

\_\_\_\_\_  
Rita C. Albrecht, Mayor