

BEMIDJI CITY COUNCIL

Work Session Agenda

Monday, April 13, 2015

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



1. CALL TO ORDER / ROLL CALL

2. 2014 FINANCIAL REVIEW – FINANCE DIRECTOR

CONSIDER A RESOLUTION DESIGNATING FUND BALANCES AND
TRANSFER OF FUNDS

3. ADJOURNMENT

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



Finance Office

MEMORANDUM

TO: Honorable Mayor and City Council
FROM: Ron Eischens, Finance Director *Ron*
DATE: April 13, 2015
RE: 2014 Year-End Financial Review

Attached are four exhibits summarizing 2014 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 later this summer. Although subject to audit, any adjustments should be minor.

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

EXHIBIT 1 – General Fund – (Primary Operating Fund)

General Fund revenue exceeded expenses resulting in a surplus of \$195,945. Of this surplus, \$14,350 was anticipated to meet the City share of fire equipment based on the Rural Fire Contract. Taking this into consideration, the remaining surplus of \$181,595 is less than 2% of the budget. Department heads and city staff should be commended for working diligently to stay within their budgets.

Revenue that differed significantly from budget amounts is summarized below:

Property Taxes – Property taxes exceeded budget by \$44,000 due to collection of delinquent taxes.

Other Taxes and Fees – Gas, electric and cable franchise fees exceeded budget by \$82,000.

Most General Fund department **expenses** were under budget. The fire and police departments were slightly over budget due to overtime, clothing allowance for new police officers and workers compensation insurance. These departments were within 1% of their 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 an example of why the City maintains 50% fund balance levels. With proposed construction in 2016, this building will require internal financing utilizing approximately \$1 million of fund balance. This amount would be replenished over time as the City’s fire department capital requirements for the next ten years will be met by the construction of this Fire Station. Internal financing and construction timeline have not been approved by Council, however it is included in the 2016 capital improvement plan.

Staff recommend allocating the \$195,945 surplus as follows:

- \$14,350 to meet capital requirements under contract with the Rural Fire Association
- The remaining balance of \$181,595 (\$195,945 less \$14,350) to increase designated fund balance, which will be short of the 50% policy goal by \$51,573. The \$51,573 can be transferred from undesignated fund balance, leaving \$205,529 as undesignated, to be used in the future as the 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 \$348,000.

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 2014 income exceeded expenses by \$104,000. In future years this timing will reverse itself.

Debt service revenue exceeded expenses by \$6.3 million. This was the primary result of bond refinancing the Council approved in May 2014 of \$5.2 million and the Energy Savings lease obligations of \$2 million. Debt service revenue consists of special

assessments, property taxes, South Shore land sales, tax increment, energy savings and rent.

Enterprise fund revenue exceeded expenses by \$1.5 million due primarily to utility and liquor activities showing a profits, as they should be. These profits will be used to pay for replacement of infrastructure and facilities in future years. Sanford Center activity listed here represents non-operating items 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 \$342,960 which was \$6,327 better than budgeted. Compared to 2013 results, this represents an improvement of \$25,000.

EXHIBIT 3 – Liquor Operations

City liquor stores had another very successful year with revenue ranking 13th statewide which includes the metro area stores. Sales increased 4% with operating profits of \$772,000, or 14%. To put this in perspective, the state has 94 off-sale liquor stores with an average net profit margin of 9.1%. Bemidji's profit margin is the highest statewide with populations of 5,000 or more. Credit for this on-going success is the experience, dedication and hard work of liquor staff. Staff managing the stores have over 30 years of experience.

During 2014 City liquor profits contributed \$340,000 to reduce property taxes, equal to an 8% tax levy. The liquor fund has \$1.4 million in cash, which is more than adequate to meet current liquor operational needs. On a short term basis this cash could subsidize any shortfalls on South Shore land bonds or meet needs for other projects. On a long term basis, a portion should be set aside for future liquor store expansion/relocation when that time comes. Staff recommends \$500,000 be set aside for this purpose at this time.

Legislation regarding Sunday liquor sales appears to be a non-issue for the current legislative session but will likely be raised again in future years. Being open on Sunday would significantly impact financial results.

EXHIBIT 4 – Arena Fund Analysis

The Arena had an operating loss of \$110,000. This is an increase of \$32,000 from the prior year due to lower rental income, higher electricity and professional service costs.

Future capital improvements to the building and ice plant will be necessary. 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 range from \$2 to \$7 million depending on what improvements are made.

RECOMMENDATION:

Approve the attached resolution authorizing the following:

Designate Fund balance for:

- General Fund cash flow and other unplanned expenses at \$5,342,429 (50% of 2015 budgeted expenses) which includes the reallocation of \$51,573 of undesignated fund balance
- Fire capital requirements at \$143,454 (\$129,104 from last year plus \$14,350 to meet 2014 requirements)
- \$500,000 of liquor profits for future liquor store needs

2016 Financial Management Plan Process Discussion – May 11, 2015

In January the Council spent time discussing items from a long list of projects and policy issues raised by staff, but no decisions were made at that time. These issues will be discussed again at the May 11th work session when the Nate, new City Manager is on board.

The challenge of the list is the City can't afford to pursue all options. In fact, just a few operational requests could easily add up to a significant levy increase. Staff need Council direction in order to adequately plan for the future.

Discussing all 24 items in one meeting may not be reasonable. A suggestion would be for Council to individually prioritize items on a scale of 1 to 5 before the meeting, with results distributed prior to the work session. This may expedite discussion on May 11th to those items the Council believes are highest priority.

Thoughts/Comments/Suggestions?

CITY OF BEMIDJI - GENERAL FUND BUDGET REPORT

31-Dec-14

EXHIBIT 1

DESCRIPTION	YTD ACTUAL	YTD BUDGET	(OVER) UNDER BUDGET	%	ANNUAL BUDGET
<u>REVENUE</u>					
Property Taxes	3,231,644	3,187,445	(44,199)	101%	3,187,445
Other Taxes & Fees	1,186,290	1,104,200	(82,090)	107%	1,104,200
Licenses & Permits	116,497	116,500	3	100%	116,500
Intergovernmental	3,638,924	3,637,280	(1,644)	100%	3,637,280
Other & Interest	170,094	155,745	(14,349)	109%	155,745
Fire Revenue	379,476	383,500	4,024	99%	383,500
Fines	177,982	194,000	16,018	92%	194,000
Internal Services/Transfers	1,549,559	1,558,055	8,496	99%	1,558,055
TOTAL REVENUE	10,450,466	10,336,725	(113,741)	101%	10,336,725
<u>EXPENSES</u>					
<u>GOVERNMENT</u>					
Council	136,649	138,870	2,221	98%	138,870
Administration	293,999	310,532	16,533	95%	310,532
Election	11,183	12,400	1,217	90%	12,400
Finance	545,694	583,690	37,996	93%	583,690
Assessing	94,360	97,600	3,240	97%	97,600
Legal	336,381	352,079	15,698	96%	352,079
Joint Planning Board	86,765	90,185	3,420	96%	90,185
Community Development	5,000	10,000	5,000	50%	10,000
MIS/Technology Systems	83,966	87,501	3,535	96%	87,501
	1,593,997	1,682,857	88,860	95%	1,682,857
<u>PUBLIC SAFETY</u>					
Police	3,689,501	3,656,706	(32,795)	101%	3,656,706
Fire & Emergency Services	934,454	924,171	(10,283)	101%	924,171
	4,623,955	4,580,877	(43,078)	101%	4,580,877
<u>STREETS</u>					
Streets	1,537,933	1,685,560	147,627	91%	1,685,560
Engineering & Public Works	415,360	457,957	42,597	91%	457,957
GIS	88,851	92,327	3,476	96%	92,327
	2,042,144	2,235,844	193,700	91%	2,235,844
<u>PARKS</u>					
Parks & Recreation	873,630	898,333	24,703	97%	898,333
Arena Transfer	127,810	127,810	-	100%	127,810
Library	200,959	217,875	16,916	92%	217,875
	1,202,399	1,244,018	41,619	97%	1,244,018
<u>MISCELLANEOUS</u>					
Cable Access Operations	1,336	2,200	864	61%	2,200
Greater Bemidji	25,000	25,000	-	100%	25,000
Contingencies	28,928	27,000	(1,928)	107%	27,000
Transportation	10,891	10,500	(391)	104%	10,500
Transfers	371,130	371,130	-	100%	371,130
Sanford Center Operating Transfer	354,741	400,000	45,259	89%	400,000
	792,026	835,830	43,804	95%	835,830
TOTAL EXPENSES	10,254,521	10,579,426	324,905	97%	10,579,426
	195,945				

**CITY OF BEMIDJI
2014 CITY WIDE FUND SUMMARY**

FUND	DESCRIPTION	Actual		Revenue>	12/31/2014
		Revenue	Expense	Expense	CASH BALANCE
101	<u>GENERAL FUND</u>	10,450,466	10,254,521	195,945	6,912,384
Various	<u>SPECIAL REVENUE</u>	6,920,350	6,816,496	103,854	5,602,065
Various	<u>DEBT SERVICE</u>	9,546,745	3,232,470	6,314,275	2,824,172
<u>ENTERPRISE FUNDS</u>					
601	Water/Sewer	4,962,346	4,438,767	523,579	6,623,476
602	Storm Water	1,345,387	955,605	389,782	507,027
603	Refuse	417,852	278,966	138,886	615,409
604	Sanford Center	2,683,317	2,644,716	38,601	414,013
609	Liquor	5,570,921	5,129,112	441,809	1,387,915
	Total	<u>14,979,823</u>	<u>13,447,166</u>	<u>1,532,657</u>	<u>9,547,840</u>
GRAND TOTAL		<u>41,897,384</u>	<u>33,750,653</u>	<u>8,146,731</u>	24,886,461
				12/31/13 Cash	<u>24,538,323</u>
				Increase	<u>348,138</u>

CITY OF BEMIDJI
LIQUOR OPERATIONS

DESCRIPTION	2012	2013	2014
SALES	5,147,077	5,340,119	5,556,519
COST OF GOODS	3,716,554	3,800,335	3,903,089
GROSS PROFIT	1,430,523	1,539,784	1,653,430
GROSS PROFIT %	27.8%	28.8%	29.8%
OPERATING EXPENSES	731,674	767,721	881,351
OPERATING PROFIT	698,849	772,063	772,079
OPERATING PROFIT %	13.6%	14.5%	13.9%
<u>OTHER EXPENDITURES</u>			
Transfers to General Fund	(340,000)	(340,000)	(340,000)
Parks Equipment/Improvements			
Store Improvements	(53,129)	(15,532)	(18,696)
Transfers for Grant Matches			
City Park			
Street Project			(21,976)
Total	(393,129)	(355,532)	(380,672)
Ending Cash Balance	\$ 588,766	\$ 989,776	\$ 1,387,915

**CITY OF BEMIDJI
ARENA FUND ANALYSIS
31-Dec-14**

Revenue	2013	2014
Ice Rent	155,661	148,196
Other	5,603	5,767
Total	161,264	153,963
Expenses		
Personnel Costs	94,001	90,908
Supplies & Maintenance	53,295	42,634
Other Services & Charges	78,397	116,257
Admininstration	13,853	13,853
Total Expenses	239,546	263,652
Operating Income/(Loss)	(78,282)	(109,689)
Non-Operating Items		
Transfer from General Fund	112,810	127,810
Capital Improvements Costs		(7,721)
Cash Balance	45,600	72,967

RESOLUTION NO.

A RESOLUTION DESIGNATING FUND BALANCES AND TRANSFER OF FUNDS

WHEREAS, on April 13, 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 fund balances in accordance with the following schedule:

General Fund

- For cash flow and other unplanned expenses of \$5,342,429
- For Fire Department equipment of \$143,454

Liquor Fund

- For future liquor store expansion of \$500,000

BE IT FURTHER RESOLVED, the above designations are effective as of December 31, 2014.

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:

ATTEST:

APPROVED:

Kay M. Murphy, City Clerk

Rita C. Albrecht, Mayor