

# **BEMIDJI CITY COUNCIL**

## **Work Session Agenda**

**Monday, April 8, 2013**

**City Hall  
Council Chambers  
5:30 P.M.**



1. CALL TO ORDER / ROLL CALL
  
2. 2012 YEAR-END FINANCIAL REVIEW
  - RESOLUTION DESIGNATING FUND BALANCES AND TRANSFER OF FUNDS
  
3. 2014 BUDGET DIRECTION
  
4. COUNCIL UPDATES/QUESTIONS (Time allowing)  
*(Council can use this opportunity to ask questions or get updates on current projects from the City Manager or other City staff that are available at the work session. Discussion only—no action is taken.)*
  
5. ADJOURNMENT



Finance Office

# MEMORANDUM

**TO:** Honorable Mayor and City Council  
**FROM:** Ron Eischens, Finance Director *Ron*  
**REVIEWED BY:** John Chattin, City Manager  
**DATE:** April 8, 2013  
**RE:** 2012 Year-End Financial Review/2014 Budget Direction

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Attached are four exhibits summarizing 2012 financial results for various city funds. 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

**Great news!** General Fund revenues exceeded expenses resulting in a surplus of \$708,643. Of this surplus, \$171,237 was reimbursement for storm cleanup costs which was not anticipated. In addition, \$141,200 of the surplus was budgeted to allocate equipment purchases equally over a five year period. Taking these two items into consideration the remaining surplus was approximately 4% of the total budget.

The surplus is the result of both lower expenses than originally budgeted and higher revenue. Savings on personnel costs were significant due to the police department not being at full staff during 2012. All city staff should be commended for working diligently within their budgets to provide services.

Revenue that differed significantly from budget amounts is summarized below:

**Property Taxes** – Property tax collections exceeded budget by \$41,671 due to collection of delinquent taxes.

**Other Taxes and Fees** – Gas and electric franchise fees were below budget by \$72,000 due to the mild winter weather. Cable franchise fees and miscellaneous assessments exceeded budget by \$7,174.

**Other and Interest** – Property insurance dividends of \$30,000 and state storm reimbursements of \$171,000 were not anticipated while interest income was down \$11,000 due to low market rates.

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

**Police** – \$107,474 – year end budget reductions to personnel costs were incorrect causing a deficit of \$111,000. Actual personnel costs were below originally budgeted amounts and non-personnel expenses were under budget by \$3,700.

**Fire** – \$33,340 - increased fire calls due to dry weather conditions combined with a long term staffing absence due to illness caused personnel costs to exceed budget by \$50,000. All other line items were under budget by \$16,660.

### **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. In order to meet monthly expenses, adequate cash reserves are required to avoid short term borrowing. The City fund balance policy states cash reserves equal to 50% of subsequent year budgeted expenses are required.

Staff recommends allocating the \$708,643 in 2012 surplus as follows:

- \$180,794 to increase cash reserves to \$4,973,243 as required by policy
- \$141,200 towards future equipment purchases as budgeted
- \$100,000 towards the Council commitment to the Carnegie Library
- \$96,608 to meet the capital obligation requirements under contract with the Rural Fire Association
- \$190,041 to undesignated reserves for future use as Council deems appropriate

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

This schedule summarizes revenue, expense and cash balances for all funds. City wide expenses exceeded revenue contributing to reduced cash balances of \$1.7 million. The decrease in cash was projected and is due primarily to Waste Water Plant construction costs which were paid for from previously issued bonds.

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 always coincide in the same year. During 2012 income exceeded expenses by \$370,000. In future years this timing will reverse itself.

Debt service expenses exceeded revenue by \$195,000 due to interest and principal paid on bonds. Annual revenue consists of special assessments, property taxes, tax increment and rent. The debt service funds have cash reserves of \$2.8 million to cover future bond payments.

Enterprise fund expenses exceeded revenue by \$1.4 million due primarily to water/sewer construction projects including the previously mentioned Waste Water Treatment project. These expenses were planned for and met budgetary expectations.

Sanford Center operations came in at a deficit of \$377,992 which was \$14,300 less than budget. \$45,000 was received in donations during 2012 and is currently reserved as "Angel Funds" to attract and promote future events. City transfers to the Sanford Center amounted to \$395,068. These transfers cover operating costs only.

At this time the City is not funding future capital replacement needs for The Sanford Center. While the City cannot afford to finance all capital infrastructure desires, consideration should be given to providing some level of funding for The Sanford Center.

### **EXHIBIT 3 – Liquor Operations**

Liquor operations had another very successful year. Sales increased \$156,000 or 3% with operating profits of \$699,000, or 13.6%. To put this in perspective, the statewide average net profit margin for off-sale liquor is 8%. Bemidji's profit margin is in the top seven stores statewide with populations of 5,000 or more. Much of the credit of this on-going success is the experience and dedication of liquor staff. The staff managing each store has over 30 years of experience and many of their staff has extensive experience as well.

Store improvements completed in 2012 included upgraded cooler LED lights and security/cash register system upgrades totaling \$53,000.

During 2012 City liquor profits contributed \$340,000 to reduce property taxes, equal to an 8.5% tax levy. The liquor fund has cash on hand of \$589,000 which is more than adequate to meet current operating needs.

Legislation regarding Sunday liquor sales and wine in grocery is always a concern as it would significantly impact financial results.

### **EXHIBIT 4 – Arena Fund Analysis**

The Arena had an operating loss of \$63,000, which is an improvement of \$12,781 over the prior year due to higher ice rental revenue. For the first time since major improvements of \$545,000 were completed in 2005, the Arena has a positive cash balance. Future capital needs will be necessary as the building and ice plant age.

### **OVERALL SUMMARY:**

#### **Positives:**

1. City surplus of \$708,643 in general fund for 2012
2. Liquor operations continue to perform at high level
3. Cash reserves at year end exceed policy requirements

Future Challenges/Goals:

1. **Selling sufficient SE Shore land to make future bond payments** – remaining bond payments total \$7.5 million over the next 15 years, averaging \$500,000 annually. Assuming the hotel and townhome proposals close as planned in 2013 there will be enough cash to make payments through 2015.
2. **Resolving Birchmont Drive appeals case and any related funding shortfalls**
3. **Maintaining LGA funding**
4. **1% hospitality tax to replace property tax funding of Sanford Center**

While this work session summarizes prior year financial results, more importantly it signals the beginning of a new budget process. Over the next several months staff will prepare the 2014 budget. Council direction and input regarding budget assumptions and priorities is necessary.

2014 budget issues for your consideration include:

- **Auto Theft Grant** – currently funds one police officer and expires on June 30<sup>th</sup>. The City will be notified in late June if the grant is funded for 2013/2014. The grant is more competitive than it has been 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 \$63,000.
- **Operational/inflationary increases, if any**
- **Specific projects, if any**
- **Services level changes, if any**

Provide staff direction on the above issues along with any others the Council has when formulating priorities for the 2014 budget.

**RECOMMENDATION:**

Approve the attached resolution authorizing the following:

- Designate General Fund balance for:
  - Cash reserves at \$4,973,243
  - Future equipment needs of \$141,200
  - Future fire capital requirements at \$102,345 (\$96,608 plus \$5,737 from 2011)
  - Carnegie Library at \$100,000
  - Remaining surplus amounts will be not be earmarked for any specific purpose

# GENERAL FUND BUDGET REPORT @ 12/31/2012

DESCRIPTION	YTD ACTUAL	YTD BUDGET	(OVER)		ANNUAL BUDGET
			UNDER BUDGET	% USED	
<b>REVENUE</b>					
Property Taxes	2,994,723	2,953,052	(41,671)	101%	2,953,052
Other Taxes & Fees	845,374	910,200	64,826	93%	910,200
Licenses & Permits	120,437	116,500	(3,937)	103%	116,500
Intergovernmental	3,295,418	3,292,194	(3,224)	100%	3,292,194
Other & Interest	439,343	253,100	(186,243)	174%	253,100
Fire Revenue	380,488	381,000	512	100%	381,000
Fines	216,770	215,500	(1,270)	101%	215,500
Internal Services/Transfers	1,620,871	1,613,252	(7,619)	100%	1,613,252
<b>TOTAL REVENUE</b>	<b>9,913,424</b>	<b>9,734,798</b>	<b>(178,626)</b>	<b>102%</b>	<b>9,734,798</b>
<b>EXPENSES</b>					
<b>GOVERNMENT</b>					
Council	132,036	134,360	2,324	98%	134,360
Administration	288,249	291,522	3,273	99%	291,522
Election	12,039	12,400	361	97%	12,400
Finance	504,056	505,975	1,919	100%	505,975
Assessing	93,420	93,700	280	100%	93,700
Legal	315,964	316,789	825	100%	316,789
Joint Planning Board	86,990	92,385	5,395	94%	92,385
MIS/Technology Systems	79,838	82,801	2,963	96%	82,801
	1,512,592	1,529,932	17,340	99%	1,529,932
<b>PUBLIC SAFETY</b>					
Police	3,314,080	3,206,606	(107,474)	103%	3,206,606
Fire	864,311	830,971	(33,340)	104%	830,971
	4,178,391	4,037,577	(140,814)	103%	4,037,577
<b>STREETS</b>					
Streets	1,367,041	1,455,564	88,523	94%	1,455,564
Engineering & Public Works	396,449	450,957	54,508	88%	450,957
GIS	83,429	87,102	3,673	96%	87,102
	1,846,919	1,993,623	146,704	93%	1,993,623
<b>PARKS</b>					
Parks & Recreation	830,105	843,650	13,545	98%	843,650
Arena Transfer	88,330	88,330	-	100%	88,330
Library	163,558	165,633	2,075	99%	165,633
	1,081,993	1,097,613	15,620	99%	1,097,613
<b>MISCELLANEOUS</b>					
Cable Access Operations	1,037	2,200	1,163	47%	2,200
Greater Bemidji	10,000	10,000	-	100%	10,000
Contingencies	29,661	40,300	10,639	74%	40,300
Transportation	7,990	10,500	2,510	76%	10,500
Transfers/Other	141,130	141,130	-	100%	282,330
Sanford Center Operating Transfer	395,068	400,000	4,932	99%	400,000
	584,886	604,130	19,244	97%	745,330
<b>TOTAL EXPENSES</b>	<b>9,204,781</b>	<b>9,262,875</b>	<b>58,094</b>	<b>99%</b>	<b>9,404,075</b>
	708,643				330,723

**CITY OF BEMIDJI  
2012 CITY WIDE FUND SUMMARY**

FUND	DESCRIPTION	Actual		Revenue>	12/31/2012
		Revenue	Expense	Expense	CASH BALANCE
101	<u>GENERAL FUND</u>	9,913,424	9,204,781	708,643	6,313,665
Various	<u>SPECIAL REVENUE</u>	3,509,203	3,139,626	369,577	5,526,905
Various	<u>DEBT SERVICE</u>	8,548,658	8,743,441	(194,783)	2,821,426
<b><u>ENTERPRISE FUNDS</u></b>					
601	Water/Sewer	4,936,115	5,948,713	(1,012,598)	7,314,737
602	Storm Water	1,140,237	1,077,291	62,946	301,539
603	Refuse	370,813	272,305	98,508	580,321
604	Sanford Center	2,429,967	3,261,997	(832,030)	335,589
609	Liquor	5,147,072	4,814,356	332,716	588,766
	Total	<u>14,024,204</u>	<u>15,374,662</u>	<u>(1,350,458)</u>	<u>9,120,952</u>
<b>GRAND TOTAL</b>		<u>35,995,489</u>	<u>36,462,510</u>	<u>(467,021)</u>	<b>23,782,948</b>
				12/31/11 Cash	<u>25,449,854</u>
				Decrease	<u>(1,666,906)</u>

## CITY OF BEMIDJI LIQUOR OPERATIONS

DESCRIPTION	2011	2012
SALES	4,990,978	5,147,077
COST OF GOODS	3,643,412	3,716,554
<b>GROSS PROFIT</b>	<b>1,347,566</b>	<b>1,430,523</b>
<b>GROSS PROFIT %</b>	<b>27.0%</b>	<b>27.8%</b>
<b>OPERATING EXPENSES</b>	<b>719,913</b>	<b>731,674</b>
<b>OPERATING PROFIT</b>	<b>627,653</b>	<b>698,849</b>
<b>OPERATING PROFIT %</b>	<b>12.6%</b>	<b>13.6%</b>
<b><u>OTHER EXPENDITURES</u></b>		
Transfers to General Fund	(274,900)	(340,000)
Parks Equipment/Improvements	(59,895)	
Store Improvements	(47,161)	(53,129)
Transfers for Grant Matches	(212,600)	
City Park		
Street Project	(16,872)	
<b>Total</b>	<b>(611,428)</b>	<b>(393,129)</b>
<b>Ending Cash Balance</b>	<b>\$ 211,417    \$ 588,766</b>	

**EXHIBIT 3**



**CITY OF BEMIDJI  
ARENA FUND ANALYSIS  
31-Dec-12**

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

# RESOLUTION NO.

## A RESOLUTION DESIGNATING FUND BALANCES AND TRANSFER OF FUNDS

**WHEREAS**, on April 8, 2013, 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 and transfers in accordance with the following schedule:

- Designate General Fund balance for cash flow of \$4,973,243
- Designate General Fund balance for Fire Department equipment of \$102,345
- Designate \$100,000 of General Fund balance for Carnegie Library
- Designate General Fund balance for Equipment of \$141,200

**BE IT FURTHER RESOLVED**, the above designations and transfers are effective as of December 31, 2012.

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