

# **BEMIDJI CITY COUNCIL**

## **Work Session Agenda**

**Monday, April 8, 2019**

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



1. CALL TO ORDER / ROLL CALL
  
2. 2018 YEAR-END FINANCIAL REVIEW &  
2020 FINANCIAL MANAGEMENT PLAN
  - Consider a Resolution Designating Fund Balances
  
3. ADJOURNMENT

**NOTE:** Please switch all cellphones and pagers 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*  
**REVIEWED BY:** Nate Mathews, City Manager *Nate*  
**DATE:** April 8, 2019  
**RE:** 2018 Year-End Financial Review  
2020 Preliminary Financial Management Plan/(Budget)

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The purpose of this work-session is two-fold, review 2018 City financial results and preview 2020 financial management plan (budget) issues. Attached are four exhibits summarizing 2018 financial information. Although subject to audit, any adjustments should be minor.

- **Exhibit 1** - General Fund
- **Exhibit 2** – City wide summary
- **Exhibit 3** – Liquor Operations
- **Exhibit 4** - Unfunded/Upcoming construction projects

## EXHIBIT 1 – General Fund – (Primary Operating Fund)

Results for 2018 reflect a deficit of \$123,090. This is not a negative as the deficit was the expected result of decisions made by the City during 2018, most involving use of reserves summarized below:

- \$ 381,014 - transfer to Carnegie Project, including \$100,000 (**reserves**)
- \$ 315,700 - down payment on ladder truck, reduces 2019 deficit (**reserves**)
- \$ 254,000 - transfer to liquor fund as part of bond sale (**reserves**)
- \$ 34,000 - consultant services for ice study

Without the above transactions, the results would reflect a surplus, which is more typical. Therefore, I consider 2018 results as positive. Kudos to department heads and staff for managing their budgets and maintaining quality service levels! Weather and/or other unexpected events could have changed financial results. Major budget variances described below:

- Revenues exceeded budget by **\$265,000**:
  - \$110,000 – Higher engineering project cost allocations
  - \$ 62,000 – Various items including airport loan repayment, FEMA reimbursement for tornado clean up, parking lot administrative fees, interest income and miscellaneous revenue
  - \$ 42,000 – Property Taxes – collection of delinquent taxes
  - \$ 44,000 – Higher franchise and cable fees collected
  - \$ 10,000 – Higher license fees and state aid received
  - \$ (3,000) – lower fines collected
  
- Expenses were under budget by **\$97,000**. Reasons for departments with significant budget variances are:
  - \$ 66,000 - Streets, various line items under budget
  - \$ 36,000 - Parks, various line items under budget
    - \$70,000 Nymore Outdoor Rink project deferred to 2019, budget amendment required
  - \$ 27,000 - Police, various line items under budget
  - \$ 17,000 - GIS, various line items under budget
  - \$ 13,000 - Finance - grant administration revenue
  - \$ 11,000 - Engineering, various line items under budget
  - \$(13,000) - All other departments
  - \$(15,000) – Technology - Microsoft and windows software upgrades
  - \$(45,000) – Fire – personnel costs including call back pay not budgeted, overtime and paid on call costs related to increased fire calls

## **GENERAL FUND SUMMARY**

The General Fund receives the majority of its funding from property taxes and LGA 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. Internal City financing of the ladder truck and Nymore Fire Station are good **examples** of why the City maintains 50% fund balance levels, as it saves borrowing and interest costs. Emergencies, natural disasters and unanticipated expenses are other reasons to maintain adequate fund balance levels.

The City annually adjusts and reallocates fund balances. Comments and recommendations regarding fund balance changes are as follows:

- \$350,671 increase to designated fund balance to meet the 50% City policy requirement.
- \$100,000 elimination of designated fund balance for Carnegie project as these funds were transferred to the Carnegie construction fund in 2018.

- \$241,200 currently designated for equipment will offset a portion of 2019 deficit related to purchase of fire department ladder truck. Leave designated amount as is.

The above leaves \$285,000 in undesigned fund balance at year-end. These **one-time** funds are available to spend as Council deems appropriate. At the February 2, 2019 work session, Council committed \$210,000 for Phase III of the Railroad Corridor development process. In addition, the Carnegie project shortfall is currently at \$90,000, partially covered by the remaining \$75,000. Since all undesigned funds have been committed, future unplanned or unbudgeted spending will be challenging.

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

This schedule summarizes revenue, expense and cash balances for all City funds. Revenues exceed expenses by \$618,000, contributing to increased cash balances of \$3.3 million, the difference being changes in accruals and liquor bond proceeds.

Special revenue funds are established for specific purposes with designated revenue streams to support their activities. However, timing of revenue and expenses do not always coincide. During 2018 expenses exceeded revenue by \$346,000, due primarily to spending of construction reserves on the annual street project, ADA transition, Depot and traffic signals.

One particular special revenue fund, the construction fund, has cash reserves of \$2.8 million, slightly lower than last year. This amount represents special assessments collected on old street projects and accumulated Tourist Information Center rent. The City Engineer lists \$4.2 million of proposed uses for these reserves, **see exhibit 4**. The first four projects are underway and part of the Capital Improvement Plan (CIP), while other projects are not in the CIP or otherwise funded. Items not on this list include Tourist Information Center maintenance or improvements, parking commitment (\$350,000) and future Historic Depot repairs.

Debt service funds track the issuance and expenditures related to City debt, with the exception of enterprise fund bonds. Revenue consists of assessments, property taxes, land sales, transfers and rent. Expenses exceeded revenue by \$194,000, primarily due to the absence of south-shore land sales in 2018. The South Shore land bonds have a remaining balance of \$2 million, to be paid off in 2023. Depending on the timing and amount of South Shore land sales, the property tax levy to support these bond payments may need to continue until year 2029.

Enterprise fund revenue exceeded expenses by \$1.3 million, a surplus. Enterprise funds typically show surpluses unless significant capital expenditures occur, such as what will occur in 2019 with utility and liquor store projects. Enterprise funds generate profits to reduce property taxes and pay for future infrastructure replacement/repair. Pending water

and wastewater plant issues will be clarified in scope and cost over the next year. Depending on this outcome, a utility rate study may be necessary. Sanford Center activity listed here represents non-operating activity such as bond payments, sales tax collections, repair and professional services related to the building and south shore development costs.

### **EXHIBIT 3 – Liquor Operations**

City liquor stores had a successful year, moving up one position in sales ranking to 12<sup>th</sup> statewide, including metro area stores. Sales had a modest increase of 1.5% with operating profits of \$544,000, which includes depreciation. The modest sales increase is likely due to construction activity limiting parking and access at the new north location, resulting in lower customer counts. Being open on Sunday has not changed sales but did increase labor costs. Profit trends are decreasing, reflecting aging stores, stagnant customer counts and limited floor space for new products.

During 2018, liquor profits contributed \$451,000 to reduce property taxes, equal to a 7.8% tax levy. The liquor fund has \$317,000 in unrestricted cash after projected construction costs and bond limitations. Sales and profits must increase in order for liquor profits to meet bond payments and property tax subsidy levels. An issue to keep in mind is the commitment to repay the construction reserve account from the liquor fund of \$50,000 annually for five years for the Veteran's Home contribution.

The new **First City Liquor** store is set to open sometime during May 2019.

### **RECOMMENDATION:**

Approve the attached resolution designating/reallocating fund balance as follows:

- General Fund cash flow and other unplanned expenses at \$5,888,395, as per City policy
- Eliminate designated fund balance for the Carnegie Project of \$100,000

### **2020 Financial Management Plan (Budget) Discussion**

Transitioning to the 2020 financial management plan (budget), staff identified the following preliminary items:

1. **Personnel costs** – largest budget item, typically 66% of department cost
  - Wage and benefit increases per union contracts
  - Payroll taxes and PERA costs on wage increases
  - Community Development Director position

- Auto theft grant may not be continued
  - New Facilities technician/Manager position
  - New street department employee related to annexation, hired fall 2020.
  - New Police officer scheduled for January 2021
  - State increase to employer and employee contributions to PERA
2. **Water/Wellfield PFC and WWTP issue** – state-bonding dollars have been requested for financial assistance. Utility rate increases may be required depending on state bonding results and the need for a water treatment process, possible well field relocation and WWTP treatment needs.
  3. **Nielson Riese Arena** – Council direction sought regarding future of building.
  4. **Sidewalk Snow Removal** – costs to be provided at a later budget meeting
  5. **2020 Presidential Primary Elections** – additional primary election required in year 2020
  6. **Administrative/User Fees** – Allocations for operating costs of the public works building, City Hall and department administrative charges need updating. This issue has both revenue and expense impacts.
  7. **Sanford Center subsidy and additional capital replacement** – increased funding for both areas need discussion and consideration. Possible special use tax may offset or eliminate this need.
  8. **Council requests?**

Potential new or additional revenue sources:

9. **Franchise fees** – City has ability to increase gas/electric franchise fees beyond the current 5% level. Benefit is fee applies to non-taxable property. 1/4% increase in fee generates \$55,000, equal to 1% tax levy increase. Provide staff direction if Council wants to pursue this revenue source.
10. **State Bonding funds** – mentioned above for well and water treatment requirements
11. **Special Use/Hospitality Tax/Sales Tax** – If authorized could reduce City property taxes and perhaps complete other City infrastructure. However, without community and business support, property taxes of \$1 million or more will continue to fund Sanford Center and South Shore Development (bond) costs.
12. **LGA Increase** – Governor's budget proposal included an LGA increase to 2002 levels.
13. **New Construction** – value of new construction offsets a portion of levy increase. Information not yet available.

Staff will develop the 2020 financial management plan based on the above issues. No Council action is necessary but direction on any of these items or additional topics would be beneficial. A work session in June is scheduled to revisit this topic.

# GENERAL FUND BUDGET REPORT - Exhibit # 1

31-Dec-18

DESCRIPTION	YTD ACTUAL	YTD BUDGET	(OVER) UNDER BUDGET	%	ANNUAL BUDGET
REVENUE					
Property Taxes	4,444,076	4,401,964	(42,112)	101%	4,401,964
Other Taxes & Fees	1,343,788	1,300,200	(43,588)	103%	1,300,200
Licenses & Permits	129,449	123,500	(5,949)	105%	123,500
Intergovernmental	3,918,261	3,914,186	(4,075)	100%	3,914,186
Other & Interest	233,524	171,441	(62,083)	136%	171,441
Fire Revenue	438,609	438,620	11	100%	438,620
Fines	145,051	148,000	2,949	98%	148,000
Internal Services/Transfers	1,816,873	1,707,055	(109,818)	106%	1,707,055
<b>TOTAL REVENUE</b>	12,469,631	12,204,966	(264,665)	102%	12,204,966
EXPENSES					
GOVERNMENT					
Council	166,634	171,470	4,836	97%	171,470
Administration	321,645	311,892	(9,753)	103%	311,892
Election	13,016	10,000	(3,016)	130%	10,000
Finance	579,355	592,060	12,705	98%	592,060
Assessing	104,919	105,138	219	100%	105,138
Legal	411,847	403,732	(8,115)	102%	403,732
Joint Planning Board	160,639	157,485	(3,154)	102%	157,485
MIS/Technology Systems	106,491	91,301	(15,190)	117%	91,301
	1,864,546	1,843,078	(21,468)	101%	1,843,078
PUBLIC SAFETY					
Police	4,207,984	4,235,306	27,322	99%	4,235,306
Fire & Emergency Services	1,441,823	1,396,771	(45,052)	103%	1,396,771
	5,649,807	5,632,077	(17,730)	100%	5,632,077
STREETS					
Streets	1,440,399	1,506,460	66,061	96%	1,506,460
Engineering & Public Works	576,178	587,480	11,302	98%	587,480
GIS	145,329	162,427	17,098	89%	162,427
	2,161,906	2,256,367	94,461	96%	2,256,367
PARKS					
Parks & Recreation	1,092,603	1,128,183	35,580	97%	1,128,183
Arena Transfer	127,810	127,810	-	100%	127,810
Library	206,271	215,063	8,792	96%	215,063
	1,426,684	1,471,056	44,372	97%	1,471,056
MISCELLANEOUS					
Cable Access Operations	1,791	2,200	409	81%	2,200
Greater Bemidji	30,000	30,000	-	100%	30,000
Contingencies	96,985	93,295	(3,690)	104%	93,295
Transportation	9,847	10,500	653	94%	10,500
Transfers	951,155	951,155	-	100%	951,155
Sanford Center Operating Transfer	400,000	400,000	-	100%	400,000
	1,489,778	1,487,150	(2,628)	100%	1,487,150
<b>TOTAL EXPENSES</b>	12,592,721	12,689,728	97,007	99%	12,689,728
	(123,090)				(484,762)

**CITY OF BEMIDJI  
2018 CITY WIDE FUND SUMMARY**

FUND	DESCRIPTION	Actual		Revenue>	12/31/2018
		Revenue	Expense	Expense	CASH BALANCE
101	<u>GENERAL FUND</u>	12,469,631	12,592,721	(123,090)	7,613,885
Various	<u>SPECIAL REVENUE</u>	5,042,062	5,388,067	(346,005)	6,724,755
Various	<u>DEBT SERVICE</u>	1,594,618	1,788,202	(193,584)	156,320
<b><u>ENTERPRISE FUNDS</u></b>					
601	Water/Sewer	5,988,006	4,232,797	1,755,209	7,961,777
602	Storm Water	1,359,102	1,128,233	230,869	1,600,673
603	Refuse	509,868	285,122	224,746	712,604
604	Sanford Center	2,784,418	1,237,848	1,546,570	1,309,784
609	Liquor	6,314,311	8,790,872	(2,476,561)	2,334,814
	Total	<u>16,955,705</u>	<u>15,674,872</u>	<u>1,280,833</u>	<u>13,919,652</u>
<b>GRAND TOTAL</b>		<u>36,062,016</u>	<u>35,443,862</u>	<u>618,154</u>	<b>28,414,612</b>
				12/31/17 Cash	<u>25,130,396</u>
				Increase	<u>3,284,216</u>



**CITY OF BEMIDJI**  
**LIQUOR OPERATIONS**

DESCRIPTION	2017	2018
SALES	5,952,150	6,039,402
COST OF GOODS	4,183,461	4,260,060
GROSS PROFIT	1,768,689	1,779,342
GROSS PROFIT %	29.7%	29.5%
OPERATING EXPENSES	1,138,357	1,234,948
OPERATING PROFIT	630,332	544,394
OPERATING PROFIT %	10.6%	9.0%
<b>OTHER EXPENDITURES</b>		
Transfers to General Fund	(390,000)	(390,000)
Admin Costs to General Fund	(60,758)	(60,758)
Store Improvements	(57,925)	(12,563)
New Store construction		(2,509,258)
Land Acquisitions	(789,470)	(287,521)
Street Project	-	(57,652)
Total	(1,298,153)	(3,317,752)
Cash	<u>\$ 638,361</u>	<u>\$ 2,334,814</u>
<b>Restricted/Committed amounts</b>		
Reserves		(260,000)
Repairs		(185,000)
Debt service - average annual plus 2019		(432,582)
Remaining construction costs		(1,140,388)
Projected unrestricted cash		<u>\$ 316,844</u>

**EXHIBIT 3**

**Construction Reserves Current & Identified Projects – within the next 1-8 years**

1. Allocation to 2019 Street Renewal Program - \$365,000
2. 2019 South Shore Park Drop Off Road - \$225,000
3. 2019 Replacement of Industrial Park Underground Street Light Wiring - \$200,000
4. City share of 23<sup>rd</sup> Street & Middle School Drive Trail (2022) - \$ 100,000
5. Milling and bituminous overlay of Public Works Parking lot = \$ 150,000
6. Milling and bituminous overlay of Diamond Point Park Pavement = \$125,000
7. Milling and bituminous overlay of Sanford Center Parking Lots = \$ 575,000
8. Reconstruction of City Parking Lot No. 4 = \$ 400,000
9. Construction of new parking lot at SW corner of 2<sup>nd</sup> & Minnesota = \$200,000
10. City Share of MnDOT Access Improvements to T.H. 197 NW = \$175,000
11. Construct Division Street Trail from existing East/West Trail to Jefferson Roundabout - \$300,000
12. Paving of Elliot Road - \$700,000
13. Future MnDOT Replacement of City Traffic Signals (city share) = \$200,000
14. ADA Improvements to city parking lots or exterior buildings = \$150,000
15. Painting of Street Light Poles = \$50,000
16. Annual allocation to Street Renewal Program = \$250,000

Total = \$4,165,000

# RESOLUTION NO.

## A RESOLUTION DESIGNATING FUND BALANCES

**WHEREAS**, on April 8, 2019, 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 \$6,239,066; representing 50% of 2019 General Fund Budget

Carnegie Project

- Reduce balance designation to zero

**BE IT FURTHER RESOLVED**, the above designations are effective as of December 31, 2018.

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 8, 2019

ATTEST:

APPROVED:

\_\_\_\_\_  
Michelle R. Miller, City Clerk

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