

# **BEMIDJI CITY COUNCIL**

## **Work Session Agenda**

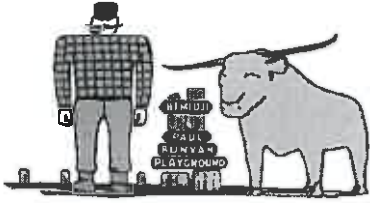
**Monday, May 11, 2015**

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



1. CALL TO ORDER / ROLL CALL
  
2. 2016 FINANCIAL MANAGEMENT PLAN
  
3. ADJOURNMENT

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



*City of Bemidji*

## **Finance Office**

### **Memorandum**

**To:** Honorable Mayor and City Council

**From:** Ron Eischens, Finance Director *Ron*

**Reviewed by:** Nate Mathews, City Manager *nm*

**Date:** May 11, 2015

**RE:** 2016 Budget/Financial Management Plan (FMP)

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On January 12, 2015 the Council discussed the advantages of approaching the budget process with a longer term perspective versus the year to year approach the City has taken in the past.

Listed below is a review of the advantages of a FMP.

#### **Advantages of FMP**

The City has developed many components of a good FMP. In order to take "budgeting" to a higher level, we need to incorporate these component areas into the budget process.

A FMP integrates the following areas into the budget:

- Capital improvement plan
- Current and future debt
- Future staffing needs
- Future operating expense and growth assumptions
- Projected future tax base growth

The benefits of an FMP are:

- Focus on big picture and policy issues
  - Avoids randomly picking a tax levy percent increase

- Allows the Council to focus on long-term financial health of the City
  - Provide good services, streets and facilities
  - Avoids focus on one year tax impacts
- Identifies funding source for projects/items that are considered priority
- Evaluates financial impacts on taxpayers

An FMP is practical because it:

- Manages expectations
  - New projects evaluated against other priorities
  - Prioritize projects based on affordability parameters
- Maintains assets
  - Regular capital and facility replacement
- Reduces challenges during budget process
  - Agree on assumptions
  - Better understand budget impact

Bottom line, this is a plan. If the Council sets **priorities** and **assumptions**, completing the budget is a less stressful process for all. Projects get done and the City has a vehicle to inform residents on the goals of the City.

#### 2016 budget and future financial considerations:

Listed below are the items discussed at the January 12<sup>th</sup> meeting. They have been reclassified and updated with current information.

#### **Operational Issues**

1. **Police LETG Software** – the software service contract providing the law enforcement records management system has expired. This cost increase amounts to \$15,000.
2. **Personnel Costs** – Compensation increases should be incorporated in the budget as union contracts expire at the end of 2015. The City's consultant is completing the wage comparison survey with an estimated completion date of May 31st. Current CGMC union settlement information for 2016 range from 2.1% to 2.75%. Each 1% increase in wages amount to \$50,000, or approximately a 1% tax levy increase.
3. **Operating budgets** – in order to maintain service levels, operational increases need consideration. Insurance, fuel and utilities are related to weather conditions or economics and are beyond department control. If no operational increases are budgeted, service levels are effectively reduced over time. A 2% increase in operational budgets (non-personnel) would amount to \$52,000 for General Fund budgets, or approximately a 1.1% levy increase.
4. **Joint Planning Board Position** – the JPB is considering an additional staff person to deal with setback verifications and code enforcement. This employee could also be utilized by the City GIS department to maintain and

update GIS data. This position would be hired by the JPB but cost shared with the City. Estimated City cost of \$20,000. The City increased its 2014 JPB budget by \$20,000 in the event that Bemidji Township no longer participated in the JPB. These dollars are available to re-allocate to pay for this JPB position with no budget increase required. Depending on the type of person hired and time availability, there is an opportunity for storm water funding for this position as well.

5. **Fire Marshal** – The fire marshal issue is complicated and ultimately involves the level of fire services the City provides including prioritizing how personnel resources are utilized. City manager needs time to analyze this request.
6. **Police Department Overtime** – due to 2009 budget challenges, all department overtime budgets were reduced by 50%. Since that time, the police department exceeds its overtime budget. This overage has been covered by savings in other line items. The detrimental impact of this results in reduced funding for other areas and is not sustainable. Currently, the police department is mandated by the State of MN to provide specific training to all officers. Despite best efforts to schedule training during regular work hours, overtime is often required. Requested overtime increase of \$40,000, for a total of \$110,000. This amount should accommodate department needs, based on historical trends and additional staff.

#### **Capital Projects:**

7. **Increased street replacement funding** – Currently the City is providing \$375,000 annually in property taxes and \$375,000 in storm water fees to fund a portion of the annual street improvement program. At this funding level the City can replace its streets every 100 years. The useful life of a new street is 45 years. When we annex Phase II in 2015/2018 that rotation increases to 107 years without increased funding. A funding increase to \$475,000 reduces street rotation to every 93 years.
8. **Capital Replacement Funding for City Buildings** – funding for major repair and replacement of City buildings is challenging. Staff handle the majority of building repair needs through the capital improvement plan, but not in all cases. The Neilson Reise Arena is an example of not including adequate future repair costs in the capital improvement plan. Since the Sanford Center was constructed, funding for future repairs has been a concern because the value of this building exceeds all other city buildings combined. The City currently funds \$84,000 annually for future Sanford Center repair needs. Based on the \$1 per square foot benchmark, the estimated annual amount for future capital needs is in the \$180,000 range.
9. **Police Department Radios** - Beltrami County recently moved to the 800 MHz radio system. In order to have radio interoperability the Police Department needs to upgrade both mobile and portable radio at a cost of \$90,000. The department proposes to use special revenue (DUI) funds to pay for \$45,000 and requests CIP funding for the other half. DUI funds are

received by the City when a conviction for a DUI occurs within City limits. Adding \$45,000 to the CIP will increase the budget by \$9,000.

## 10. Council Issues/Projects??

### Deferred or Resolved Issues

**Police Body Worn Cameras** - there are significant issues to resolve before purchasing cameras. Storage space for the video is as costly as the cameras themselves. Legal issues related to the privacy, or lack thereof, are primary reasons for delaying the purchase. Other Cities are currently in litigation on this matter. Costs may be added to future CIP and/or funded with DUI funds when the legal issues are resolved.

**GIS Website Update** – The current GIS website is obsolete and difficult to maintain. County and City GIS staff are exploring website options with estimated one-time startup costs of \$20,000 to be shared equally between the City and County. Funding for City share can be covered by the 2015 GIS capital improvement budget. On-going annual maintenance would be approximately \$2,000.

**South Shore Marina/Day Docks** – Approved at March 16<sup>th</sup> Council meeting for installation in summer 2015.

**Fire Station # 2** – the estimated construction in 2016 is \$1.2 million. This project is included in the fire department capital improvement plan and will require the use of \$1 million of City reserves to internally finance. Repayment of reserves will occur the next 8 to 10 years since the City will meet its fire capital needs for many years.

**Bar closing time** – No changes made to current closing time.

### Issues with unknown impacts

**Birchmont Drive assessments** – the resolution of this lawsuit will likely require a City financial contribution. The amount is unknown but could be in the \$300,000 to \$800,000 range. Funding options include, but are not limited to, utility funds and cost sharing with Northern Township. The intent is to complete the reassessment process by fall of 2015.

**South Shore Land Bond Payments** – these debt payments total \$6.8 million through year 2028. Currently the City has \$869,000, which is sufficient to make bond payments through year 2015, leaving a balance of \$321,714. There are land sales in progress that would generate additional revenue to make bond payments through 2016, avoiding levying additional property taxes at this time. Long term, the question is, will land sales generate the \$6 million necessary to make remaining bond payments?

**Library expansion-** Last year, former City librarian Paul Ericsson provided a long list of library issues/concerns including building improvement and expansion. The desire for a formal needs assessment and long range plan for the library's facility and services was at the top of his list. With the new librarian coming on board soon, additional information may be available for consideration for future budgets.

**Railroad Corridor Development** – the City may be asked to provide incentives or funding to encourage development of this area. If this involves providing infrastructure such as utilities and/or streets, these items are not included in the capital improvement plan or budget.

**South Shore Park** – The Lake Bemidji clean-up project is scheduled for fall of 2015. Estimated costs range from \$1.5 million to \$2.2 million based on desired amenities and features. The current city budget allocates \$50,000 annually for the entire park system development. An additional local sales tax may be a source of funding for this purpose.

**Parks/Bike Trails Improvements** – as part of on-going trail and park development, the Council needs to consider if additional dedicated tax levies should be established for this purpose.

**Neilson Reise Arena** – As discussed several times, this facility is in need of major renovation in the near future. Costs to renovate and upgrade the facility range from \$2.2 million to \$3.5 million dollars depending on desired outcome. Costs for a new facility range from \$6 million to \$7 million. An additional local sales tax may be a source of funding for this purpose.

**Sanford Center Water Leak** – While the ultimate costs of this issue cannot be determined at this time, the City will bear some financial responsibility with estimated costs in the six figure range.

**Bemidji Youth Advisory Council** – an increase to the current \$1500 City contribution to this organization may be forthcoming, however, the amount and reason for increase are unknown.

The issues with unknown impacts deserve **consideration** in the budget process. While some of these matters may result in no future costs, several of them will create financial obligations.

## Revenue Alternatives

Options for increasing City revenue to fund new projects or maintain service levels are limited. For Bemidji, raising property taxes is challenging, especially when a 1% levy increase only generates \$45,000 in new revenue.

In addition to property taxes, three potential revenue sources are:

1. **Hospitality Tax** – Gathering support for this has been challenging.
2. **Local Sales Tax** – Based on comments at the Sanford Center Open House, there may be better support for an additional local sales tax. Since an estimated 85% of local sales taxes are paid by residents living outside the City limits, this funding source is more reasonable to finance City “regional” assets. City facilities such as the Sanford Center, South Shore Park development, Neilson Reise Arena are a regional draw and deserve a funding source other than property taxes. In addition, the high level (51%) of tax exempt property within the City is a strong argument for local sales tax.

As a matter of comparison, a 1% hospitality tax would generate \$540,000 annually while a ¼% local sales tax would generate \$1.1 million. A local sales tax certainly would create an opportunity to reduce property taxes. **Local sales tax could be a focus in the upcoming months to gather community input and support for next year’s legislative session.**

3. **Street Improvement Districts** – this method of funding was not successful during the 2015 legislative session. Future legislative agenda’s will hopefully revisit this matter.

## 2016 Budget Recommendations:

My recommendations are:

1. **Police LETG Software** - \$15,000 increase as requested
2. **Personnel Costs** – The amount cannot be determined until the wage comparison study is completed and Council direction given on cost of living increases.
3. **Operational Budget Increases** – 2% increase in non-personnel costs (fuel, insurance, supplies) amounting to \$52,000
4. **GIS Website** – increase of \$2,000 for ongoing software maintenance
5. **Police Department overtime** – increase of \$40,000, for a total overtime budget of \$110,000.

6. **Police Department Radios** – add \$45,000 to CIP in 2016 spread over five years, increase budget by \$9,000. Remaining \$45,000 paid for with special revenue DUI funds.
7. **Sanford Center Capital Funding** – increase funding by \$96,000, to \$180,000 annually. This level of funding is in line with the benchmark of \$1 per square foot of building space.

If Council approves these recommendations, the levy impact will be discussed, along with union negotiation parameters, at a June/July work session. The levy increase of the above recommendations is approximately 7.5%. However, taking into consideration the projected growth in tax base of 3.7%, the effective tax increase will be in the 3% to 4% range.

**Items needing further research or information are:**

Fire Marshal/JPB Position – City Manager to review.

Increased Street Replacement Funding – The timing of Phase II and III annexation will require additional funding of \$100,000 to maintain street replacement approximately every 100 years.

Body Worn Cameras – the legislature and legal system need to clarify data privacy issues.

Bike and Trail Improvements – funding source for this regional asset could be part of new local sales tax initiative.

Bemidji Youth Advisory Council – group has not defined their financial amount or purpose of increase.

**Issues with unknown impacts**

Budget decisions regarding issues with unknown impacts should be deferred until the financial consequences of Birchmont Drive, Sanford Center Water Leak and South Shore Bond Payments/Land Sales are resolved. These three items are expected to have financial consequences of some magnitude.