

BEMIDJI CITY COUNCIL

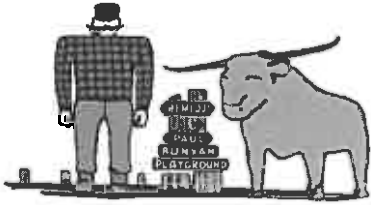
Work Session Agenda

Monday, June 10, 2013

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



1. CALL TO ORDER
2. CLOSE MEETING TO DISCUSS:
 - Pending Litigation Concerning Bemidji Township
3. REOPEN MEETING
4. 2014 BUDGET DISCUSSION
5. ADJOURN



City of Bemidji

Finance Office

Memorandum

To: Honorable Mayor and City Council

From: Ron Eischens, Finance Director *Ran*

Reviewed by: John Chattin, City Manager

Date: June 10, 2013

RE: 2014 Budget

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At the April 8th work session the Council provided some general direction to staff regarding the 2014 budget. This memorandum and attachment provide an overview of major budget issues related to general fund activities. The utility (water, sewer line, storm water and refuse) budgets will be discussed later this fall as part of our annual cash flow project.

The issues discussed on April 8th included funding an additional library position (contingent on approved County funding) and summer interns for certain departments.

Major issues are as follows:

Local Government Aid (LGA) and Property Tax Levy Limits

The state approved an increase in LGA for Bemidji of \$305,000 for 2014. However, in conjunction with this increase, legislation imposing one year levy limits was also approved. The levy limit formula "freezes" the City's taxing ability to 2013 amounts. In other words, the City will have to maintain the property tax levy at current levels for 2014 except for special levies usually related to bond payments.

Sales Tax Exemption

Effective January 1, 2014 the City will not be required to pay state sales tax, saving the City approximately \$176,000. Of this total, \$87,000 is related to General Fund activities. Staff recommends using this savings as a small increase to operating budgets as described below.

Personnel Costs

All union contracts are approved through 2015 which include 3% salary increases. This amounts to \$124,000 along with related payroll tax, PERA contributions and workers compensation premiums.

Minnesota increased both employee and employer PERA (retirement) contribution requirements for police and fire employees resulting in increased City costs of \$22,000. Proposed internships added \$12,650.

Operating Budgets

City operating budgets (non-personnel costs) should keep pace with inflationary increases in order to maintain service levels over the long term. Staff recommends the sales tax savings discussed above be exchanged for operating increases amounting to less than 1%.

Capital Budget

After updating the City five year capital improvement plan (CIP) there was a net annual increase of \$14,530 over the previous year. Property tax funded capital items over the five years amounts to \$3,099,000. Repair and replacement dollars to fund sidewalks and seal coating programs are not included in the capital or operating budgets.

Potential Funding Sources

Gas/Electric Franchise Fees

Since property taxes can't be raised, one source of additional revenue is the gas/electric franchise fee. The City is allowed up to a 5% franchise fee and we are currently at 4.5%. The remaining .5% would generate approximately \$100,000 in new revenue. Considering the City has increased this fee substantially in recent years, staff is not recommending this option.

Liquor Store Profits

Currently the City liquor stores generate \$600,000 annually in profits of which \$340,000 are transferred to the General Fund. This leaves approximately

\$260,000 in available funding for other purposes. If the Council is interested in replacing the Discount Liquor store in the future, or expanding store locations, liquor profits could be accumulated for these future costs. Additionally, the excess liquor profits are one source of funds to utilize if land sales on the SE Shore do not meet bond payment requirements. For these two reasons staff does not recommend utilizing available liquor profits to fund on-going expenses.

Other Items

Several revenue and expense line items have been adjusted to reflect historical amounts collected or spent. For example, gas and electric fees collected in 2012 were \$70,000 less than budgeted, but due to the mild winter, staff recommends a \$50,000 reduction. On the expense side, electricity costs for parks and street lights have been higher than budget and therefore adjusted upwards, while LEC rent costs have been reduced to reflect County refinancing of LEC bonds at a lower interest rate.

OTHER CONSIDERATIONS

Auto Theft Grant

This grant pays for one full time police officer position (\$63,000) and expires June 30, 2013. The City will not know if this grant is renewed until later this month. Statewide grant requests total \$7 million with only \$3 million in funds available. The most recent word from the grant agency is that funding, if awarded to the City, will not be at 100%. The proposed budget assumes this officer remains on the police force with no grant funding. If the grant is awarded at any level, the City will have additional dollars available.

Additional Library Position

At the April 8th work session council directed staff to consider this issue. The City costs for this position are estimated at \$40,000.

Beltrami County has included this position on their "potential additions" list but will not be programming it into regular operations for initial budget discussions.

New Fire Marshall Position

The Fire Chief requests the Council consider adding a Fire Marshall position to the budget at an approximate cost of \$70,000.

SUMMARY

Review the attachment and provide direction as to further change the Council wants to make to the 2014 General Fund Budget.

**CITY OF BEMIDJI
RECOMMENDED 2014 BUDGET CHANGES**

<u>Revenue</u>	<u>Increase (Decrease)</u>	
LGA	305,070	
Rural Fire Contribution	35,000	
MSA Street Maintenance	15,000	
Reduced Annexation Payment to Townships	14,670	
Cable Franchise Fees	(15,000)	
Transfer from Development Funds	(20,000)	
Gas/Electric Franchise Fees	(50,000)	
Revenue Increase		284,740
<u>Expense</u>	<u>Increase (Decrease)</u>	
Personnel - Cost of living/steps	124,050	
FICA/PERA Payroll taxes	15,650	
Police and Fire PERA Increase (.9%)	22,000	
Internships added	12,650	
FAA Airport grant reduction	25,000	
Workers Compensation increase	11,960	
Contractual Records Employees decrease	(10,000)	
Professional Services - Legal	8,000	
Electricity Costs - Street Lights and Parks	30,696	
LEC Rent decrease	(6,000)	
CIP Funding increase	14,530	
Expense Increase		248,536
Funding Available for new items		36,204

<u>New Items to consider not included above</u>	<u>Amount</u>
Library additional staff person	40,000
New Fire Marshall position	70,000
Council Suggestions	???