

BEMIDJI CITY COUNCIL

Work Session Agenda

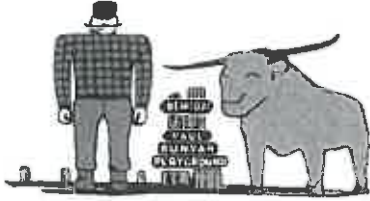
Monday, June 13, 2016

City Hall
Conference Room
5:30 P.M.



1. CALL TO ORDER / ROLL CALL
2. 2017 BUDGET/FINANCIAL MANAGEMENT PLAN (FMP)
3. ADJOURNMENT

PLEASE 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 *Nate*

Date: June 13, 2016

RE: 2017 Budget/Financial Management Plan (FMP)

.....

Last year's budget process focused on a long term perspective. Many of these items were incorporated in the 2016 budget. An update on each of the 22 long term issues is listed below:

Operational Issues:

1. **Police LETG software** – maintenance costs budgeted in 2016
2. **Personnel costs** – union contracts and costs agreed upon through 2018
3. **Operating budgets** – due to the level of budget surpluses, no operational increase budgeted for 2017
4. **JPB staff** – additional staff person to verify setbacks/code enforcement implemented in late 2015
5. **Fire Marshal** – no staff increases proposed for 2017
6. **Police Department Overtime** – budget increase incorporated in 2016

Capital Projects:

7. **Street Replacement Funding** – no increases made in 2016 or 2017 resulting in longer street replacement time frames
8. **Capital Replacement** – \$180,000 annual funding designated for The Sanford Center
9. **Police Department Radios** – included in 2016 budget
10. **Police Body Cameras** – waiting for legislative clarification on public or private nature of data as well as storage and staffing requirements
11. **GIS Website update** – implemented in 2016
12. **South Shore Day Docks/Marina** – completed in 2015

13. **Fire Station # 2** – construction to be completed in 2016
14. **Library Expansion** – no action taken
15. **Railroad corridor development** – on-going discussions and Phase II study in process
16. **South Shore Park** – construction in 2016
17. **Park/Bike trail improvements** – efforts to incorporate in future plans
18. **Neilson Reise Arena** – upgrade of ice plant and building are unresolved
19. **Sanford Center Water Leak** – repair in progress in 2016, however, wall repair issue may be more extensive than originally estimated.

Other Issues:

20. **Youth Advisory Council** – alternative funding located outside of City budget
21. **South Shore Bonds** – additional tax levy of \$115,000 added in 2016
22. **Birchmont Drive Assessment Appeals** – on-going

Of the above, most of the issues have been budgeted, completed or in process. This is a significant accomplishment the Council should be proud of!

Since many of these items are resolved and maintaining a reasonable levy increase is desirable, the 2017 budget focus is narrow. Proposed issues to address in 2017 are:

- Implement second year of union contract terms
- Adjust revenue items to reflect historical trends
- Annexation impact of Phase II of Northern Township
- Fund Downtown Archway costs with liquor profits
- South Shore Bonds – previous prepayments of other bonds resulted in savings of \$600,000 to be utilized to pay South Shore bonds
- Birchmont Drive Bonds – utilize the early payment option to pay these bonds off in 2017 utilizing utility reserves, saves \$370,000 in interest
- Storm Water – run-off issues have impacted surrounding waters (Lake Irving, Lake Bemidji, etc). In order to comply with storm water permit requirements, the City needs more staffing, public education and pretreatment of run-off before it enters watershed areas, all of which can be done without a rate increase at this time.

Future Revenue Alternatives

Options for increasing City revenue for new projects or maintain service levels are limited. Raising revenue through property taxes is challenging when a 1% levy increase only generates \$50,000 in new revenue.

Three previously discussed revenue sources are:

1. **“Visitor Enhancement” Revenue** – This revenue stream would come from food and beverage consumption. Reducing City property taxes for costs related to regional assets such as parks, Sanford Center and Neilson Reise Arena would be one benefit of this new revenue stream. In addition, projects such as Nice Ride assistance, banners, winter tree lighting, visitor monument/welcome signage have been mentioned as items requiring City financial assistance.
2. **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 as well. In addition, the high level (51%) of tax exempt property within the City is a strong argument for local sales tax.

A 1% “visitor enhancement” tax would generate approximately \$500,000 annually while a ¼% local sales tax generates \$1.1 million. A local sales tax certainly would create an opportunity to reduce property taxes. **Local sales tax needs state legislative authorization and must have a defined dollar amount or sunset clause.**

3. **Street Improvement Districts** – this method of funding was not successful during the 2016 legislative session. Future legislative agenda’s may revisit this matter.

2016 Budget Recommendations:

Our recommendations are summarized on the attachment but additional detail follows:

Revenue Adjustments – these reflect adjustments to bring categories in line with historical trends, resulting in an increase of \$117,000, equivalent to a 2.4% levy reduction. The increase to gas/electric franchise fee is **not** due to a rate increase, but reflects annexation and trend impacts. The revenue sharing amount of \$98,000 is the payment due to Northern Township for Phase II annexation.

Expense Adjustments

- \$276,300 increase in personnel costs – combination of:
 - Cost of living, step and benefit increases per union contracts
 - Street department overtime reduction reflecting historical trend

- Temporary employee cost reductions for administration, streets, engineering and GIS. These employees have not been utilized in previous years
- \$212,000 increase for Phase II annexation – in order to “capture” new tax base, City needs to increase levy by this amount. If property values stay the same, City taxes will remain the same for an increase of this amount. Property owners in the annexation area will see taxes increase over time as the City tax rate is phased in from the lower township rate.
- \$29,200 increase to cover Fire Department call back pay which was not previously budgeted
- \$13,000 increase for legal prosecution costs paid to County
- \$2,926 increase in payments to KRL, representing 2.25% inflationary increase. Job study/salary survey being conducted by KRL.
- \$2,500 increase for GIS website maintenance

Local Government Aid – The Legislative session ended with a tax bill including \$106,000 in additional LGA for Bemidji, equivalent to a 2% levy decrease. The Governor did not sign the tax bill so this LGA increase is dependent on a special session.

Summary

The end result of 2017 budget adjustments creates a levy increase of \$418,952, or 8.7%. This does **not** equate to an 8.7% increase in property taxes due to the offsetting impact of new construction/increased property value (3.8%) as well as the additional tax base in Phase II annexation of Northern Township (4.4%). Based on the impact of these two items, the net tax levy increase will be 4.9%, meaning the City tax on an average home of \$115,000 increases by approximately \$21.

If a special session is called and the tax bill approved, the increase in LGA will result in a 2% reduction in the tax levy.

**CITY OF BEMIDJI
2017 GENERAL FUND BUDGET/TAX LEVY**

<u>Revenue Adjustments</u>	<u>Increase (Decrease</u>	<u>Levy Impact</u>
Gas/Electric Franchise Fee - No rate increase	90,000	
Police Town Aid	40,000	
Rural Fire Assoc Contribution	30,000	
MSA	25,000	
Interest	10,000	
Fire Personnel Reimb	10,000	
Summer Registration Fees	10,000	
School Resource Officer	5,000	
Hotel Tax Admin Fee	5,000	
County Court Fees	(10,000)	
Annexation revenue sharing - Northern Phase II	(98,000)	
Net revenue increase	117,000	-2.4%
<u>Expenses Adjustments</u>		
Personnel Cost increases	276,326	
Fire Dept call back pay	29,200	
Phase II Annexation levy increase	212,000	
Prosecution services	13,000	
GIS Website maintenance	2,500	
KRL Contribution increase	2,926	
Subtotal	<u>535,952</u>	11.1%
Total	<u><u>418,952</u></u>	8.7%
<u>Less</u>		
Phase II annexation tax base		-4.4%
New construction and increase in property value		-3.8%
Effective (Net) levy increase		<u><u>4.9%</u></u>
<u>Annual Impact on Average Valued Home/Business</u>	<u>Home \$115K</u>	<u>Business \$365K</u>
4.9% levy increase	21	163