

BEMIDJI CITY COUNCIL

Work Session Agenda

Monday, August 10, 2015

City Hall
Council Chambers
5:30 P.M.

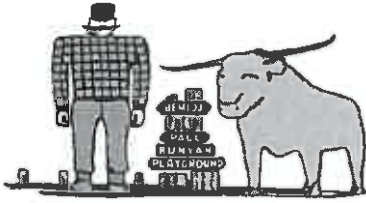


1. CALL TO ORDER / ROLL CALL

2. 2016 FINANCIAL MANAGEMENT PLAN

3. ADJOURN

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: Nathan Mathews, City Manager

Date: August 10, 2015

RE: 2016 General Fund Budget and Tax Levy

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The goal of the 2016 budget was to view the process on a longer term basis. At previous work sessions, staff presented several issues for consideration and direction. Many of these items were eliminated because costs and timing were unknown. Despite the deferral, discussion was held regarding long term issues, meaning there is awareness of these items as they will surface in the future.

The attachment summarizes previously approved budget actions as well as updated/proposed items. Narrative by section follows:

Revenue Adjustments – Various line items were increased/decreased to reflect historical trends. Phase I annexation revenue sharing with Bemidji and Northern townships is no longer required, resulting in savings of \$34,500. LGA is proposed to increase \$10,698. Phase II annexation of Northern Township is assumed in late 2015, therefore increases in cable and gas/electric franchise fees were budgeted. The impact of these revenue changes is \$118,198 increase, equivalent to a 2.6% levy reduction.

Previously approved budget expense increases – These items were discussed in May or at the closed work session July 13th. Total expense increase of \$446,900, equal to a 9.9% levy increase.

Other considerations/updates

- Auto Theft Grant – due to excellent work done by the police department, the State of MN renewed this grant for the period July 1, 2015 to June 30, 2017. 2016 budget savings of \$55,000.
- Police overtime reduction – after a more in depth review of previous overtime costs, it was determined that a significant portion of overtime was due to the large turnover in personnel in recent years. This turnover caused an increase in training and shift coverage while new officers were in training. With only a few retirements expected in the future, overtime costs should stabilize. Scheduling training to occur more often on non-overtime status, as well as lowering court call back time, should keep this line item adequate with just a \$20,000 increase.
- Additional Street Department Employee – ~~the 2015 budget included hiring a street employee in the fall to handle needs due to annexation. Assuming annexation occurs in 2016, the additional costs for this position for a 12 month period is approximately \$31,000 for salary and benefits.~~
Updated – Based on recent discussions with Northern Township, the City is likely to annex a portion of Phase II property in 2015. Annexation will **not** require the hiring of an additional street department employee. The costs originally allocated towards this position (2015 and 2016) is proposed to be reallocated as follows; 1) Council Travel \$3,000, 2) Increase to Greater Bemidji \$5,000, 3) Storm water fees to cover new City parks \$10,000, 4) Liability Insurance \$20,000, 5) Property Insurance (New Fire Station) \$7,000
- Kitchigami Regional Library (KRL) contribution increase – the City recently received notification from KRL of an increase of \$3,786 for 2016. This increase is contingent on Beltrami County increasing their contribution as well.
- MIS/Assessing/Legal Service contracts – per discussion with Beltrami County, these contracts will each increase 3% based on their general wage increase for 2016. Increase of \$5,791.
- Proposed new firefighter position – Based on the Rural Fire Association's lack of support for this position in 2016, it is not budgeted. However, the fire department will receive administrative staff support of 8 to 12 hours per week from current city staff, which will provide some relief to the department. No cost increases to City.
- JPB shared position – the JPB recently hired this position at a cost of \$44,000, city share of \$22,000, which is \$2,000 higher than budget in 2015, so is being added for 2016.

Summary

Assuming the proposed revenue and expense items are approved, the levy increase for 2016 would be 6.6%. The average home owner in Bemidji pays \$345 a year in City property tax. To put this in perspective, a 6.6% levy increase equates to a \$19 tax increase to an average \$100,000 homeowner, or \$143 to the average business valued at \$300,000. The value of new construction (1%) along with a general property value increase (2.7%), would offset the levy increase by 3.7%, resulting in an effective increase of 2.9%.

The Council can set a higher levy increase to cover items not discussed or included in the proposed budget, some of which are listed on the following page.

Levy Reallocation

The City tax levy consists of four components; 1) General Fund, 2) Sanford Center Capital Replacement, 3) Bond Payments, and 4) Street improvements.

It has become evident over the last year that South Shore land sale revenue will not meet amounts originally projected. Therefore, it is prudent to plan now for a shortfall in meeting bond payments. Assuming land sales are 60% of what Lake N Woods Realty projected the City faces a \$3 million bond shortfall over the next 13 years.

The good news is the City can reduce the 2016 levy in several areas to set aside funding to cover this shortfall as follows:

- **Sales tax bonds** - local sales tax collections have been strong since inception in 2006, increasing an average of 4.6% versus projections of 3.3%. As a result, staff recommend reducing this levy by \$40,599 at this time.
- **30th St Trail Project** – a one-time 2015 cost of \$50,000 to cover the 30th street project.
- **Public Works Building bond payment** – due to refinancing these bonds at a lower interest rate, the City saves \$24,786 annually.

Reallocation of the above savings towards the bond shortfall results in no levy change and doing so accomplishes one of the long term goals mentioned in previous work sessions.

Future Financial Challenges

New revenue sources are important because they add stability to City finances, especially considering the 50% rate of non-taxable property in the City. Paying for and maintaining regional City amenities such as streets, Sanford Center, parks, trails and City buildings with local property tax dollars creates financial challenges for the City. These City facilities are utilized by many people from outside the City and throughout the region.

A funding source that captures visitor dollars that shop, eat and recreate in the City would help pay for the maintenance of City amenities. A 1% hospitality tax on lodging and restaurants, paid by customers, would generate over \$500,000 annually which could be used to fund previously mentioned Bemidji regional assets as well as provide future property tax relief. **Developing community support for this new revenue source is critical if the City desires to maintain city assets/services and keep property taxes in check.**

Other unresolved long term budget issues to keep in mind are as follows:

- **Neilson Reise Arena** – the building and ice plant are in need of significant upgrades with costs in the \$3 to \$6 million range. The Council must decide what policy direction to take regarding this facility.
- **South Shore Park** – if all goes according to plan, the South Shore lakebed cleanup will be completed this fall. There is no funding or plans for park amenities, roads or facilities. If the Council desires these items for this area the levy should be increased to cover necessary costs.
- **The Sanford Center** – it is unknown at this point what financial consequences are for the water leaks, legal and other costs for resolving this matter. Amounts should be known by the end of 2016.
- **Birchmont Drive Assessments** – The outcome of this legal case may remain unresolved until 2016 or beyond. City funds will be required to resolve this matter.
- **Industrial Park/Railroad Corridor** – there has been recent discussions regarding development of these areas. At this time staff are not aware of any City funding required, but there may be local grant requirements or infrastructure requested that may require City financing.

None of the above items are included in the 2016 budget but will impact future City finances. Before deciding on priorities or new initiatives, consideration should be given to the above.

CITY OF BEMIDJI
2016 GENERAL FUND BUDGET/TAX LEVY

<u>Revenue Adjustments</u>	<u>Amount</u>	<u>Levy Impact</u>
Reduced tax revenue sharing with townships - Phase I	34,500	
Liquor License decrease	(7,000)	
MSA increase	9,000	
LGA increase	10,698	
Fire Call decrease	(5,000)	
Admin Fine decrease	(6,000)	
Parking Ticket decrease	(4,000)	
Police Town Aid increase	27,000	
Cable Franchise Fee increase - annexation	12,000	
Gas/Electric Franchise Fee increase - annexation	47,000	
Net revenue increase	118,198	-2.6%
 <u>Previously approved adjustments</u>		
Personnel costs - discussed in closed session	232,900	5.2%
Police LETG Software maintenance	15,000	0.3%
2% non-personnel line item increases	52,000	1.2%
GIS Website maintenance	2,000	0.0%
Police Dept overtime	40,000	0.9%
CIP increase - police dept radios	9,000	0.2%
CIP increase for Sanford Center (\$180,000 annually)	96,000	2.1%
Subtotal	446,900	9.9%
 <u>Other Considerations/Updates</u>		
Increase in auto theft grant	(55,000)	-1.2%
Police overtime reduction per Police Chief	(20,000)	-0.4%
Street dept employee due to annexation - reallocation	31,000	0.7%
KRL Contribution increase	3,786	0.1%
Legal/Assessing/MIS contract with County increases	5,791	0.1%
Proposed new firefighter position (admin assistance)	-	0.0%
Additional amount for JPB shared position	2,000	0.0%
Subtotal	(32,423)	-0.7%
Net budget/levy increase	296,279	6.6%
Less new (1%)construction and increase in property value		-3.7%
Effective increase		2.9%

<u>Proposed Tax Levy Reallocation</u>	<u>Amount</u>
Sales Tax Bonds	(40,599)
One time 30th St Trail costs	(50,000)
PW Building Bond Payment	(24,786)
South Shore Bond Payment Subsidy	115,385
Net Change	-