

# **CITY COUNCIL PROCEEDINGS**

## **BEMIDJI, MINNESOTA**

### **Special Meeting/Work Session – September 29, 2014**

Pursuant to due call and notice, a special meeting/work session of the City Council of the City of Bemidji, Beltrami County, Minnesota, was held on Monday, September 29, 2014, at 5:30 p.m. in the Conference Room of City Hall, Mayor Albrecht presiding.

Upon roll call, the following Councilmembers were declared present: Albrecht, Meehlhause, Johnson, Hellquist, Olson, Thompson Absent: Erickson

Staff Present: Finance Director Ron Eischens, City Attorney Alan Felix, Public Works Director Craig Gray, City Clerk Kay Murphy

#### Travel Request

Mayor Albrecht stated that she is unable to travel to the Mayors for Municipal Roads meeting and suggested perhaps another Council member could attend.

#### CIP/Utility Cash Flow Annual Update

Eischens stated that his purpose is to review the projected financial results and related assumptions on City utility funds, which include water, sanitary sewer, storm water and refuse. The City utilizes the consulting firm Public Financial Management (PFM) to update its cash flows based on information provided by staff. He stated that projections include the following major assumptions:

- Water Consumption – the five year average is 421 million gallons. However, with that changes due to the winter freeze issue this year, staff estimate 394 million gallons will be billed for 2014. Staff estimates water consumption at a lower rate of 400 million gallons. Sewer rates are lower than water due to sprinkling meters not contributing to the sanitary sewer flow.
- Proposed Rate Adjustments – 3% sewer increase for 2015, no storm water rate increases.
- Expense growth – 3% annual increases for 2016 to 2019.
- Birchmont Drive Assessments – no additional City contribution are included in the projections.

#### Sewer Fund Projection

Eischens stated that the Sewer Fund is expected to generate \$2.8 million in revenue for 2014. Capital improvement projects totaling \$4.3 million over the next five years reduce sewer reserves to \$3.3 million by 2019. In summary, operating results and ending cash reserves are appropriate for the sewer fund. A 3% increase in the sewer fund would keep the fund reserve at \$3.3 million.

#### Water Fund

Eischens noted that reduced gallons of water sold in 2014 due to winter temperatures caused a slight decrease in revenue. This combined with higher operating costs resulted in lower operating income. Mandated water conservation rates for 2015 are projected to reduce water consumption to 400 million gallons. This reduction in consumption keeps revenue flat, which coupled with rising expenses reduce future operating income. Capital improvement projects total \$5.1 million over the five year period, combined with lower operating income, reduces cash reserves to \$1.8 million. This cash reserve is considered adequate.

#### Storm Water

Eischens stated that there is no projected storm water rate increases for the next five years as revenues will be constant other than a slight increase in 2015 and 2016 due to annexation of Northern Township. He stated that cash reserves are adequate at \$513,000.

#### Refuse

Eischens stated that refuse operations are profitable over the next five years. Staff recommended reducing the City rate on 95 gallon cans to \$13.20 while increasing the 65 gallon rate to \$12 per month. This change generates the same level of revenue. Annexation on July 1, 2015, is projected to add \$5,000 in new revenue and another \$5,000 in 2016. Refuse cash reserves at the end of 2019 are projected at \$495,000.

Summary

Eischens stated that the utility funds have \$7.4 million of outstanding debt with annual payments of \$795,000. This debt was used to construct or improve the City’s utility infrastructure. These projects indicate cash reserves decreasing from \$7.4 million in 2014 to \$6.1 million by 2019. The primary reason for this decline is the \$12.6 million in utility capital costs. Despite the reduction in cash, utility reserves are considered adequate by 2019.

Water Usage Rate Structure

Eischens stated that all water customers currently pay \$3.35 per 1,000 gallons regardless of the amount of water they consume. In other words, the single family home owner pays the same rate as a large commercial user even though the homeowner consumes much less water. Effective January 1, 2015, the State of Minnesota will requiring a structure charging higher rates to customers using larger amounts of water. The intent is to target reduction of nonessential water use. He then reviewed current city utility customers stating that 100 of the City’s 4,000 meters use over 50,000 gallons per month (primarily large businesses and tax-exempt property owners). Staff recommended the following water rate structure for 2015 to comply with State law requirements:

<u>Consumption per month</u>	<u>Usage Rate</u>
0 to 10,000 gallons	\$3.35 (same as 2014 rate)
10,001 to 50,000 gallons	\$3.85 (15% increase)
Over 50,000 gallons	\$4.62 (20% increase)

The impact to customers of the proposed rate structure is projected to be:

<u>Customer</u>	<u>1,000 gallons of Consumption</u>	<u>2015 Water Increase</u>
Homeowner	10	0%
Fast Food/Restaurant	50	12%
Grocery Store	100	25%
Apartment Building	200	31%
BSU – Walnut Hall	500	35%
Hospital	1,500	37%

Eischens stated that the recommended rate structure places a larger burden on customers using more water.

Private Wells

Eischens stated that currently property owners can install their own well for irrigation purposes without City approval. An impact of the water conservation rate structure will be the desire to install private irrigation wells. He noted that recently some customers have put in irrigation wells and has resulted in losses of water revenue. Discussion continued regarding the risks to the city water supplies as well as the public health and safety.

**Motion by Johnson, seconded by Thompson, approving the recommended water rate structure as presented, increase the sewer rate by 3% to \$6.10 per thousand gallons, and modify refuse rates and incorporate into the City’s fee schedule ordinance for 2015. Motion carried unanimously.**

The Council by consensus directed staff to provide more research on an ordinance to limit and/or prohibit the drilling of private wells within City limits for irrigation purposes.

Proposed Land Pricing

Felix stated that the City and BEDA hired Lake-N-Woods Realty to market the City and BEDA properties. In the course of their preparation, they have analyzed the circumstances and properties as well as the land prices and propose a pricing strategy that will give them the latitude to market the property. Discussion and review of the lots available for sale in the south shore followed.

Chris Hamilton and Bob Kiewatt of Lake-N-Woods Realty reviewed proposed pricing for the properties. Hamilton stated that comparable sales are almost non-existent and sales of any vacant land are few. He stated that real estate is fluent and one needs to take a close look at why things are not selling. He suggested that Lot 5 could serve different needs and different purposes. The goal is to get something going in the south shore to make it attractive to other developers. The following lot prices were suggested by Lake-N-Woods:

1. Lot 1, Block 2 \$8.50 s/f

2. Lot 2, Block 2 \$9.00 s/f
3. Lot 1, Block 3 \$9.00 s/f
4. Lot 2, Block 3 \$8.50 s/f
5. Lot 3, Block 3 \$8.00 s/f
6. Lot 1, Block 5 Under \$3.00 s/f
7. Lot 1, Block 6 \$5.00 s/f
8. Lot 1, Block 7 \$4.00 s/f
9. Lot 1, Block 8 \$5.00 s/f

Olson expressed concerns about the City's ability to repay bonds if the south shore lots prices are reduced. Hamilton stated that the idea is to get something started down there which will bring other interested developers. Hamilton stated that traffic counts increase the profitability so there is a need to get more people in the area.

In addition, Hamilton stated that they propose the following price changes:

- MnDOT Site - \$525,000 to \$575,000
- Rako Street Site - \$325,000 for whole trace or \$2 s/f

**Motion by Hellquist, seconded by Thompson, to accept the revised pricing for the south shore lots, MnDOT site and Rako Street property as presented. Motion carried unanimously.**

Hamilton outlined their marketing plan which entails:

- Education – Obtain comprehensive knowledge of the property, i.e., traffic patterns, parking, etc.
- Signage – placement of real estate signs on property
- Print Advertising – Full page will be devoted to the City's property in the Northwoods guide
- Digital Advertising – Utilize two multiple listing services, LoopNet commercial property exchange, links to and front the Lake-N-Woods Realty website to south shore Bemidji website and update city's website to include Lake-N-Woods Realty information
- Direct Contact / Networking – Greater Bemidji, HRDC, business brokers, local contacts
- Pricing – establish realist pricing for today's market, lower prices to fill spaces with the right developer that will drive the desire for other developers

#### **ADJOURN**

There being no further business, motion by Hellquist, seconded by Olson, to adjourn the meeting. Motion carried. Meeting adjourned at 7:15 p.m.

Respectfully submitted,

  
Kay M. Murphy  
City Clerk