

BEMIDJI CITY COUNCIL

Work Session Agenda

Monday, September 9, 2019

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



1. CALL TO ORDER / ROLL CALL

2. 2020 BUDGET (FMP)

3. 2020 SALES TAX PROPOSAL

4. PRELIMINARY CONSIDERATION OF ALLEGATIONS AGAINST A CITY OF BEMIDJI EMPLOYEE UNDER MINNESOTA STATUTES, SECTION 13D.05, SUBD. 2(B) – TABLED FROM SEPTEMBER 3, 2019 COUNCIL MEETING

5. ADJOURNMENT

COUNCIL AGENDA ITEM



Meeting Date: September 9, 2019

Action Request: 2020 Financial Management Plan (Budget)

Prepared By: Ron Eischens, Finance Director

Reviewed By: Nate Mathews, City Manager

On June 24th Council reviewed 2020 staff proposed revenue and expense adjustments listed on the attached spreadsheet. Since then, additional items were clarified or added (shaded lines), described more fully below:

Auto Theft Grant – great news from the Police Department, this grant renewed for another two-year term! Kudos to police department and staff. The renewal is at \$62,500 per year, compared to the current \$80,000, a reduction of \$17,500 reflected on the attachment.

Toward Zero Death (TZD) Grant – Police department also received notice of a \$77,513 extension of the TZD grant. Only \$58,135 is included in 2020 since the grant runs on an October to September fiscal year, or nine months in 2020, a reduction of \$8,615 from 2019. The funding agency indicated this grant will not be renewed. Keep this in mind for 2021, as this funding will be replaced by the tax levy to maintain service levels in the police department.

Legal Department/Prosecution Services – With nearly a year of the City providing its own misdemeanor prosecution services, the legal department has a better perspective of necessary staffing levels. In 2019, the legal department is investing \$10,000 in software to eliminate the need to hire an additional legal secretary. However, staff believe a full time legal secretary will be necessary in 2020 due to annexation related case load expected at an estimated cost of \$40,000, reflecting a June hire. An additional assistant attorney will be evaluated next year as part of the on-going growth needs of the City.

Youth Advisory Commission (YAC) – Council appeared to support transferring \$7,500 from the YAC to the recreation department in 2020. No net budget impact.

Neilson Reise Arena – At the June work session, staff presented two recommendations on this topic. First, reduce the general fund transfer to cover operating losses only, resulting in a \$40,000 savings. The second was to increase ice rental rates sufficient to generate \$60,000 in new revenue. Operational costs of the Arena are funded by transfers from the General Fund and ice rent. On average, the Arena rents 1600 hours of ice time annually. Overall ice usage is 2400 hours and includes general skate, open hockey and parent-preschool.

Current 2019 ice rental rates are:

| | |
|-----------------------------|----------|
| Adult Groups (Jan to Dec) | \$120/hr |
| Youth Hockey (Oct to March) | \$105/hr |
| Figure Skaters (400 hours) | \$ 95/hr |

In order to generate \$60,000 in additional ice rent, staff recommend two options, discussed in more detail below. It is difficult to estimate if groups can afford the increase and the impact this will have on revenue. The General Fund has been subsidizing ice rates. The recent ice study indicated a rental rate of \$150/hr was necessary to cover costs at any ice arena.

Ice rate options:

1. Single rate structure

- \$148/hr charged to all groups
- Impact will be greater on youth organizations as they pay lower rates than adult groups, camps, private rentals, etc.
- Rate increase may impact future ice time demand

2. Maintain tiered rate structure

- Each tier increases by \$38/hr
- Rate increase may impact future ice time demand

Cable Franchise Fees – The Federal Communications Commission recently made a dramatic change to cable franchises, many managed by cities, which have negative city budget implications. This ruling will be effective by late September 2019. In short, the fair market value of complimentary or discounted cable services to public buildings and PEG services are now classified as “in-kind” franchise fees subject to a deduct on the 5% franchise fee calculation. The end-result is reduced franchise fee revenue, which is not determinable at this time. The City will be in discussions with local cable providers to analyze the fiscal impact of this law change and renegotiate agreements.

County Sales Tax – City manager requested County response to public finance policy of sharing a portion of County road sales tax for City street reconstruction. At this time, a meeting request was proposed but no meeting time has been finalized.

Discretionary Items/Policy Issues:

Of the topics listed on attached, increased funding for annual park maintenance/improvements had some Council support. Since the levy is more in focus, staff need Council direction on the discretionary items. As an example, a \$25,000 increase in parks capital funding would increase the levy by .42%, for a total 2020 increase of 3.60% versus the 3.2% listed on the attachment.

SUMMARY

Unless Council has budget changes it desires, the 2020 levy will be \$6,095,321, representing a 3.9% increase from 2019, offset by .7% of new construction value, for a net increase of 3.2%. Provide staff direction on the 2020 preliminary tax levy.

Special Use/Sales Tax

Last winter and this spring, a committee of council and community members met to discuss a potential City special use tax. The committee made no decision or recommendation. As a result, staff suggest Council determine how to approach this topic in preparation for the 2020 state legislative session.

The following are potential uses for a special use/sales tax:

- **Sanford Center operations and capital repair/replacement**
- **Water Treatment Plant** – City requested state bond funds in the 2020 legislative session for the \$14 to \$16 million PFAS Water treatment plant. Staff are pursuing other funding, including grants. A local sales tax would reduce the need for water rate increases, which could be substantial depending on other sources of funding.
- **Waste Water Treatment Plant (WWTP)** – Our plant is at solids processing capacity with expansion required to meet future growth. Possible nitrogen treatment may be required but not known until license renews in February 2020. Estimated costs for expansion and nitrogen treatment in the \$6 to \$10 million range. Again, a local sales tax would reduce sewer rate increases, which may be substantial depending on other sources of funding.

There were substantial changes to the local option sales tax process that occurred during this year's legislative session, see attached. A new local sales tax must be approved by the state legislature before being presented locally for voter approval. To do so, each sales tax funded project must demonstrate a public regional importance and listed separately. Beltrami County recently mentioned local sales tax as an option to fund jail remodel/replacement needs.

No decision is expected on this topic, but an October work session will be scheduled for further Council discussion.

CITY OF BEMIDJI
2020 GENERAL FUND BUDGET/TAX LEVY - updated

| | Increase (Decrease) | Levy Impact |
|---|------------------------|----------------|
| <u>STAFF RECOMMENDATIONS</u> | | |
| <u>Revenue Adjustments</u> | | |
| LGA | 161,426 | |
| Administrative Allocation | 69,000 | |
| Rural Fire Association Contribution | 51,000 | |
| Gas/Electric Franchise Fees - (annexation related) | 45,000 | |
| Municipal State Aid for Streets - (MSA) | 26,000 | |
| Interest income | 20,000 | |
| Recreation Fees | 15,000 | |
| Cable Franchise Fees - (annexation related) | 11,000 | |
| School Resource Officer reimbursement | 8,000 | |
| Liquor Licenses | 6,000 | |
| Parking Tickets | (7,000) | |
| Revenue increase | 405,426 | -6.9% |
| <u>Expenses Adjustments</u> | | |
| Personnel Costs | 610,888 | |
| Auto Theft Grant - renewed at reduced amount | 17,500 | |
| TZD officer grant - renewed at reduced amount | 8,615 | |
| Fire personnel reimbursement - loss of airport payment | 60,000 | |
| Facilities Manager | 33,600 | |
| JPB funding increase | 15,000 | |
| Carnegie - transfer of funds to cover operational costs | 10,000 | |
| New legal secretary (June hire) | 40,000 | |
| Seasonal street department staffing (painting) | 10,000 | |
| Presidential Primary Election | 8,000 | |
| Technology/Assessing Budget increase - provided by County | 5,350 | |
| KRL Contribution increase @ 2.5% | 3,500 | |
| Operational cost increases | None | |
| Reallocate Youth Advisory Commission dollars | (7,500) | |
| Reallocate Youth Advisory Commission to Recreation | 7,500 | |
| Eliminate Economic Development project budget | (10,200) | |
| Lower liability insurance premiums | (15,000) | |
| Phase II Annexation payment - Northern Township | (24,000) | |
| Reduce Arena transfer to reflect operating losses only | (40,000) | |
| City Hall/Public Works Building Allocations | (40,300) | |
| Increase arena ice rental rates to reduce deficit | (60,000) | |
| Expense Increase | 632,953 | 10.8% |
| Total Levy Increase | 227,527 | 3.9% |
| <u>Less</u> | | |
| Value of new construction | | -0.7% |
| Cumulative levy impact | | 3.18% |
| <u>Discretionary Items/Policy Issues</u> | | |
| Sanford Center CIP contribution | ? | |
| Special Use Tax | ? | |
| Sidewalk Snow Removal | 80,000 | |
| Annual Park Improvements | 50,000 | |
| Aquatic Invasive Species | 45,000 | |
| County sales tax discussion | ? | |
| Mini Project Pride | ? | |

ARTICLE 6**LOCAL TAXES**

Section 1. Minnesota Statutes 2018, section 297A.99, subdivision 1, is amended to read:

Subdivision 1. **Authorization; scope.** (a) A political subdivision of this state may impose a general sales tax (1) under section 297A.992, (2) under section 297A.993, (3) if permitted by special law, or (4) if the political subdivision enacted and imposed the tax before January 1, 1982, and its predecessor provision.

(b) This section governs the imposition of a general sales tax by the political subdivision. The provisions of this section preempt the provisions of any special law:

(1) enacted before June 2, 1997, or

(2) enacted on or after June 2, 1997, that does not explicitly exempt the special law provision from this section's rules by reference.

(c) This section does not apply to or preempt a sales tax on motor vehicles ~~or~~. Beginning July 1, 2019, no political subdivision may impose a special excise tax on motor vehicles unless it is imposed under section 297A.993.

(d) A political subdivision may not advertise or expend funds for the promotion of a referendum to support imposing a local ~~option sales tax~~; and may only spend funds related to imposing a local sales tax to:

~~(e) Notwithstanding paragraph (d), a political subdivision may expend funds to:~~

(1) conduct the referendum;

(2) disseminate information included in the resolution adopted under subdivision 2, but only if the disseminated information includes a list of specific projects and the cost of each individual project;

(3) provide notice of, and conduct public forums at which proponents and opponents on the merits of the referendum are given equal time to express their opinions on the merits of the referendum;

(4) provide facts and data on the impact of the proposed local sales tax on consumer purchases; and

(5) provide facts and data related to the individual programs and projects to be funded with the local sales tax.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 2. Minnesota Statutes 2018, section 297A.99, is amended by adding a subdivision to read:

Subd. 1a. **Requirements.** Local sales taxes are to be used instead of traditional local revenues only for construction and rehabilitation of capital projects when a clear regional benefit beyond the taxing jurisdiction can be demonstrated. Use of local sales tax revenues for local projects decreases the benefits to taxpayers of the deductibility of local property taxes and the state assistance provided through the property tax refund system and increases the fiscal inequities between similar communities.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 3. Minnesota Statutes 2018, section 297A.99, subdivision 2, is amended to read:

Subd. 2. **Local resolution before application for authority.** (a) Before the governing body of a political subdivision requests legislative approval ~~of to impose a local sales tax authorized by a special law for a local sales tax that is administered under this section~~, it shall adopt a resolution indicating its approval of the tax. The resolution must include, ~~at a minimum~~, the following information on:

(1) the proposed tax rate, how the revenues will be used;

(2) a detailed description of no more than five capital projects that will be funded with revenue from the tax;

(3) documentation of the regional significance of each project, including the share of the economic benefit to or use of each project by persons residing, or businesses located, outside of the jurisdiction;

(4) the amount of local sales tax revenue that would be used for each project and the estimated time needed to raise that amount of revenue; and

(5) the total revenue that will be raised for all projects before the tax expires, and the estimated length of time that the tax will be in effect. This subdivision applies to local laws enacted after June 30, 1998 if all proposed projects are funded.

(b) The jurisdiction seeking authority to impose a local sales tax by special law must submit the resolution in paragraph (a) along with underlying documentation indicating how the benefits under paragraph (a), clause (3), were determined, to the chairs and ranking minority members of the legislative committees with jurisdiction over taxes no later than January 31 of the year in which the jurisdiction is seeking a special law authorizing the tax.

(c) The special legislation granting local sales tax authority is not required to allow funding for all projects listed in the resolution with the revenue from the local sales tax, but must not include any projects not contained in the resolution.

EFFECTIVE DATE. This section is effective the day following final enactment and applies to all local sales taxes not authorized by the legislature before July 1, 2019.

Sec. 4. Minnesota Statutes 2018, section 297A.99, subdivision 3, is amended to read:

Subd. 3. **Legislative authority required before voter approval; requirements for adoption, use, termination.** (a) A political subdivision must receive legislative authority to impose a local sales tax before submitting the tax for approval by voters of the political subdivision. Imposition of a local sales tax is subject to approval by voters of the political subdivision at a general election. The election must be conducted before at a general election within the two-year period after the governing body of the political subdivision requests legislative approval of has received authority to impose the tax. If the authorizing legislation allows the tax to be imposed for more than one project, there must be a separate question approving the use of the tax revenue for each project. Notwithstanding the authorizing legislation, a project that is not approved by the voters may not be funded with the local sales tax revenue and the termination date of the tax set in the authorizing legislation must be reduced proportionately based on the share of that project's cost to the total costs of all projects included in the authorizing legislation.

(b) The proceeds of the tax must be dedicated exclusively to payment of the cost of a construction and rehabilitation costs and associated bonding costs related to the specific capital improvement which is

designated at least 90 days before the referendum on imposition of the tax is conducted projects that were approved by the voters under paragraph (a).

(c) The tax must terminate after the improvement designated under paragraph (b) has been completed the revenues raised are sufficient to fund the projects approved by the voters under paragraph (a).

(d) After a sales tax imposed by a political subdivision has expired or been terminated, the political subdivision is prohibited from imposing a local sales tax for a period of one year. Notwithstanding subdivision 13, this paragraph applies to all local sales taxes in effect at the time of or imposed after May 26, 1999.

(e) Notwithstanding paragraph (a), if a political subdivision received voter approval to seek authority for a local sales tax at the November 6, 2018, general election and is granted authority to impose a local sales tax before January 1, 2021, the tax may be imposed without an additional referendum provided that it meets the requirements of subdivision 2 and the list of specific projects contained in the resolution does not conflict with the projects listed in the approving referendum.

(f) If a tax is terminated because sufficient revenues have been raised, any amount of tax collected under subdivision 9, after sufficient revenues have been raised and before the quarterly termination required under subdivision 12, paragraph (a), that is greater than the average quarterly revenues collected over the immediately preceding 12 calendar months must be retained by the commissioner for deposit in the general fund.

EFFECTIVE DATE. (a) The amendments to paragraphs (a) to (d) and adding paragraph (e) are effective the day following final enactment and apply to all local sales taxes not authorized by the legislature before July 1, 2019.

(b) The amendment adding paragraph (f) is effective the day following final enactment and applies retroactively to all currently imposed local sales taxes.