

EAST BETHEL CITY COUNCIL MEETING

JULY 6, 2016

The East Bethel City Council met on July 6, 2016, at 5:30 p.m. for the City Council Work Meeting at City Hall.

MEMBERS PRESENT: Ron Koller Tim Harrington
 Brian Mundle Tom Ronning

MEMBER ABSENT: Steve Voss

ALSO PRESENT: Jack Davis, City Administrator
 Mike Jeziorski, Finance Director

1.0 The July 6, 2016, City Council Work Meeting was called to order by Mayor Pro Tem
Call to Order Ronning at 5:30 p.m.

2.0 **Harrington stated I'll make a motion to adopt tonight's agenda. Koller, I'll second.**
Adopt Ronning asked any discussion? All those in favor? **All in favor.** Motion carries. **Motion**
Agenda **passes unanimously.**

3.0 Anoka County Sheriff Jim Stuart presented two budget proposals for the 2017 Law
Anoka Enforcement Services Contract for the City. A proposal for 36 hour daily patrol coverage
County and 20 hour per week CSO coverage was presented to the Council. The cost for this service
Sheriff's would be \$1,033,200. This is the same service as the City currently receives and the 2016
Office 2017 cost is \$1,026,000. This proposal represents a 0.7% increase over the current contract.
Contract
Presentation The second proposal was for 36 hour daily patrol coverage and no CSO service. The cost
 for this proposal would be \$988,

4.0 Davis presented the staff report relating to the work meeting budget discussion. Mike
2017 Jeziorski
Proposed
Budget Jeziorski presented the agenda for the work session which included: budget timeline,
Presentation financial highlights from 2015/2016, and finally the 2017 budget and levy.
and
Discussion Jeziorski stated that the budget is a yearlong process starting January 1st with the creation of
 the budget model. The draft budget as a broad overview is then provided to the Finance
 Committee for input. Finally, the budget document is provided to City Department Heads
 so they can adjust all non-salary line items.

Jeziorski stated that the preliminary levy then will be up for consideration on September 7th. With that, then the County provides all stakeholders their proposed property tax bills in November. Then the City Council holds a meeting in December to solicit stakeholder input on the budget and levy with final budget/levy consideration that same night.

Jeziorski went over some of the financial highlights of 2015 and the current year. The General Fund is projected to have a \$2.6 million fund balance at the end of 2016, which is 51% of the 2017 proposed expenditures. Again, the City's fund balance policy sets that threshold at a minimum of 40% of expenditures.

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Jeziorski stated that the City is projected to have Capital cash balances of \$2.4 million at year end 2016. These capital reserves fund equipment purchases, park projects, street outlay, and building capital.

Jeziorski stated that the City has a AA bond rating, which is very strong. Again, the rating agency cited very strong management, very strong internal controls, very good budget flexibility as reasoning for the strong rating.

Jeziorski stated that City renegotiated their reserve capacity loan with the Met Council to cap the loan balance at \$2,000,000.

Jeziorski then summarized the 2017 budget. City Staff is proposing that the City General Fund revenues increase by 3% from \$4,975,900 to \$5,133,200 with the expenditures increasing at the same rate.

Jeziorski then summarized personnel costs associated with the 2017 budget. The City has a total of 19 FTE's with 11 of those being union positions. The newly signed union contract runs from 2017 through 2019. In it, there's a 2% COLA increase for 2017 and then also there is an increase to a \$1,000 monthly cash benefit. Also within the budget there are: 35 paid-on-call fire fighters; one part-time cable technician; two seasonal Public Works employees.

Jeziorski summarized the general fund budget by program. General Government expenditures are proposed to decrease by 3% from \$1,086,900 to \$1,054,800. Community Development is proposed to increase by 13%, \$428,000 to 483,900. Public Safety is proposed to increase by 3% from \$1,620,300 to \$1,674,500. Engineering expenses are projected to increase by 14% from \$35,000 to \$40,000. Public Works expenditures are projected to increase by 4% from \$1,273,200 to \$1,322,500. Transfers to other funds is proposed to increase by 1% from \$530,000 to \$535,000.

Jeziorski stated overall that our General Fund levy is proposed to increase by 1.5% from \$4,109,300 to \$4,169,900 and our debt service levy by 1.4% from \$1,142,000 to \$1,158,500. The overall levy then is proposed to increase by 1.5% from \$5,251,300 to \$5,328,400. It was also noted that the past two year levy increases were .9% in 2015 and 1.5% in 2016.

Jeziorski also went over the levy proposals for both the HRA and EDA. The EDA's levy is proposed to decrease by 21% from \$123,022 to \$97,500. The HRA budget is proposed to be increased from \$0 to \$26,600

The Council reviewed the General Government category. Ronning asked about the cost for the new election equipment. Davis explained the terms of the City's Joint Powers Agreement with Anoka County. He noted the primary cost for the general election relates to the 34 judges for three precincts.

Davis noted Community Development includes the Planning & Zoning and Building Departments and shows a 21% projected increase in Planning & Zoning. The big component in Community Development is \$28,000 for the 2017 Comp Plan update. He explained the costs for Central Services has increased and been assigned to the Building Department plus two wage step increases. He referenced the budget pages that reflect the narrative and line item summaries.

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Harrington asked about small tools and minor equipment costs of \$4,000, noting in the past it was only several hundred dollars. Jeziorski explained the big driver in that cost increase is computer replacements so that line item will go back down in 2018. Davis pointed out the Professional Services Fees of \$8,100 that had previously been included under Central Services. Harrington stated he appreciates the explanation that the \$4,000 increase relates to the cost for computer upgrades.

Ronning asked about the City's software licensing. Jeziorski and Davis described the software modules used by accounting and finance, building and planning, and the Fire Department. It was noted the budget reflects hosting and upgrade fees, not ownership of the actual software. Jeziorski stated the benefit in a software subscription based model is that all employees use the same software versions.

Davis next addressed the budget for Public Safety. He stated Sheriff Stuart gave a good presentation, noting their costs went up very little (\$7,000) and that includes the animal control contract that was budgeted at \$8,000, resulting in a 1% increase overall. The Fire Department budget is proposed to increase by \$47,200 but if the Central Services allocation is deducted, it is a 4.6% increase instead of an 8% increase. Davis noted all recognize that public safety is a core function of government and many items are required of the Fire Department related to safety and protective clothing that are expensive and require replacement.

Davis stated under Engineering, the increase is for the fee paid to the City's consulting engineering firm, Hakanson Anderson, that is proposed to increase \$5,000. He noted that five years ago this budget line item was at \$45,000 but through the City's budget reduction efforts, that number was reduced. However, now there are more projects so this number is more reflective of what the costs have been historically over the last year. Davis noted this budget category is \$5,000 lower than it was in 2011.

Davis stated Public Works projects a 4% increase for roads and streets and parks related to assignment of the Central Services costs and wage increases. Civic Events is \$2,500 and has been at that level for several years. The only expense out of this category is one-half the cost for the Booster Day fireworks. The other one-half of the cost is matched by the Booster Day Committee.

Davis stated Transfers reflects transfers from the General Fund to support the Street Capital Plan, Parks Capital Plan, and Building Capital Plan. The only increase is to the Parks transfer by \$5,000 for the last two years as it had been cut from \$100,000 to \$50,000. The intent is to gradually build that back up through small incremental increases.

Davis stated the General Fund Budget is proposed at \$5,113,200 to begin budget discussions. He stated last year's levy increase of 1.5% was the third lowest in Anoka County among 21 cities and staff hopes to remain in that low tier again.

Ronning asked about the \$5,000 increase (14%) for Engineering and whether it reflected anticipated projects. Davis explained a lot of the engineering costs are project related but this is for base services when staff needs engineering for items such as project development, cost estimates, SWPPP programs, general engineering services and wetland delineations. Generally, it does not apply to projects but it helps support those projects.

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Jeziorski reviewed General Fund Revenues, noting the largest component is the property tax levy at \$4,169,900 plus other revenue categories including an anticipated 16% increase in franchise taxes (Mid Continent) based on their increased customer base. Licenses and Fees is anticipated to have a 4% growth of \$41,500 as opposed to \$40,000 with liquor licensing being the largest component of that number. Building Inspection Fees is anticipated to grow by 6% but will depend on 2017 building activity. To be conservative, staff left the line item for revenue generated from Bethel and Oak Grove as flat in case building activity stalls. Jeziorski noted State Aid revenue is anticipated to grow by 15% with the big driver being street aid based on what occurred with the actual in 2015. Fines and Forfeits (court fines) was lowered by 7% based on actuals. Intergovernmental Charges are charges from the General Fund to other funds for support services and anticipated to be flat at \$127,000. Site Lease Revenue (tower lease revenue) in 2017 includes the Verizon lease for an increase of \$56,000. Interest Earnings Revenue was increased from \$2,000 to \$4,000, or 100%, to reflect the up tick in interest rates. Jeziorski stated those are the main components of General Fund Revenues.

Mundle asked where the increase in Site Leases will be used. Jeziorski stated it is put into the General Fund to help support General Fund activities.

Ronning referenced Building Inspection Permits including Bethel and Oak Grove, noting it is \$271,000. Jeziorski stated it is roughly \$261,000 so if you look at Building Inspection expenses, you're at \$271,500. Davis stated those are conservative budget figures as to date, the first half of the year is on track to exceed those numbers. He stated there have been increases in revenue from East Bethel and Oak Grove permit activity. In East Bethel, 12 building permits have been issued and Oak Grove has had 19 building permits through May so it could be on pace to generate \$40,000 to \$50,000 above the anticipated budget line item. Davis stated generally these two funds will fund the activities of the Building Department. Jeziorski concurred, noting 2014 had \$294,000 in revenue from building inspection and the expenditure was \$228,000, meaning it is fully supported through fees charged with a \$70,000 surplus. For 2015, the revenues were \$297,000 with expenditures of \$234,000.

Davis stated through the end of May, the City has collected almost \$84,298 in building permit fees for East Bethel and \$65,232 from Oak Grove, or \$150,000 out of the budgeted \$260,000, which is about 60% of the projection in five months.

Ronning asked if Oak Grove is getting a bargain. Davis explained that both East Bethel and Oak Grove benefit from our agreement. Oak Grove is charged 80% of inspection fees and 100% of planning fees. He noted this helps fund the positions because if the City did not have Oak Grove, it would need 1.5 employees in the Building Department. Oak Grove benefits from the aspect that only pay for services received and these costs are borne by the permittee.

Davis stated in 2012 the City had three employees in the Building Department and took in \$84,000 in permit fees. The level of staff was eventually trimmed down but there was a period of almost four years (2009-2012) that the General Fund subsidized the Building Department as it was not self-sufficient from permit fees generated. Since 2013, it has been self-sufficient.

Harrington referenced the Water Fund and asked why electric utilities increased from \$5,680 last year to \$12,000 for next year. Jeziorski stated that line item is for the utilities

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for the water plant in the Whispering Aspens Community Center. The budget number is based on the actual dollars spent in 2014 and 2015. Jeziorski explained the \$5,000 figure referenced by Harrington may have been a carryover from when the other water plant came on line and not adjusted correctly in 2016.

Jeziorski presented the Utility Funds/Enterprise Funds for Water, Sewer, and Arena that are supported through user fees charged to the customer. In the Water Fund, sales of \$66,300 is anticipated and including penalties, the projected budget is \$66,800. He explained that instead of coding a portion of employee salaries to this fund, the City charges a one-time fee of \$20,000. Jeziorski stated from a cash standpoint, the City is generating a surplus of \$10,400 with current rates. When considering annual depreciation of \$272,000, this fund loses money from a net income standpoint. The Sewer Fund anticipates sales of \$104,000 with a one-time salary fee, supplies, and fees for service from Met Council for wastewater treatment. From a cash flow standpoint, the Sewer Fund is doing pretty good so the negative cash balance is decreasing each year. He explained that from an accounting perspective, there are two factors: the cost for depreciation; and, the cost for the Reserve Capacity Loan principal adjustment so the net income is actually a loss of \$530,200.

Ronning asked where the City is at with the \$2 million cap. Jeziorski displayed a spreadsheet, noting at the end of 2015, the City owed the Met Council \$99,940 for the Reserve Capacity Loan. At the end of 2016, it is anticipated to be at \$299,383 with the one connection to the system. With the current growth, it is anticipated the City will hit the \$2 million cap between 2020 and 2021.

Davis stated the Council will be considering a project at tonight's meeting that would be connecting to the sewer system, probably with 2 ERUs. He stated there may be one or two more in 2016, next year there is the possibility the church may connect, and the Shaw project may be ready in 2018.

Mundle asked if hitting the \$2 million cap between 2020 and 2021 would be with no connections. Davis answered in the affirmative. Mundle noted then it could be at a later date. Davis stated it probably will but even at the rate the City is growing, unless there is some substantial development, it may be 2022 or 2023.

Ronning noted there are yearly incremental changes to the ERU rates. Jeziorski stated the actual SAC rate was renegotiated so anything the Met Council charges for the urban rate, East Bethel would add \$100. Met Council has indicated its intent to keep the urban rate static for the next couple of years. But should it fluctuate, then the City's rate will also fluctuate. Jeziorski reviewed the terms under the loan prior to renegotiation. He described how the debt management system was set up so once it comes on line, there will be several bond issues falling off and this loan expense can be assumed without a hit to the levy.

Jeziorski presented the Arena Fund budget, noting sales of \$237,300 are anticipated. That number is driven by ice and dry floor event sales, locker room fees, and other fees. He noted that from a cash flow standpoint, the Arena Fund is doing well and when you factor in depreciation, it is at a break even budget. Ronning noted that breaking even may be considered success in this case. Jeziorski agreed that in this business, it is success.

Mundle asked whether more dry floor events have been booked for the summer. Davis stated only the East Bethel Royalty Pageant and explained it is difficult to schedule other types of dry floor events after May due to the lack of air conditioning. Jeziorski stated the

one thing to note with the Arena Fund is that it receives no City subsidies so it is fully funded through user fees. Mundle asked when the Arena will have ice. Davis estimated October 1st as youth hockey has cut back on their hours, which also helps the City as it lowers utility costs.

Davis reviewed the budget process and noted with this budget, staff anticipated a 3% increase to the Sheriff's Department Contract but it came in essentially flat, which was a savings of \$30,000 to \$40,000. Staff's goal was to keep the budget increase between 1.5% to 2%, which has been accomplished.

Davis asked whether the Council had further questions or items they would like staff to explore in more detail. Ronning asked if there are questions on the Fire Department budget as it involves a lot of assumptions. Davis agreed the Fire Department budget and Street Department budget require more work than the others because they include so many line items including keeping safety equipment current for the Fire Department.

Koller stated in 2018, the breathing apparatus has to be replaced, which will cost \$200,000. Davis explained that will be funded through the Equipment Replacement Fund. Harrington stated there are also new rubber boots at \$150 per pair and helmets at \$250 to \$300 each.

Harrington stated staff has done an outstanding job with the budget. The Council agreed.

Mundle stated he would be interested in having Fire Chief DuCharme and Public Works Manager Ayshford present their budgets. Davis stated the preliminary budget needs to be ready to approve in September. He stated Fire Chief DuCharme can be asked budget questions at the next meeting after he presents the monthly report and Public Works Manager Ayshford can be scheduled for the following meeting.

Davis asked the Council to let him know if they want to explore anything else with the budget so it can be worked into the meeting schedule.

Harrington stated when the public hearing is held, he would like staff to emphasized that this is the City's portion and not the County's and School District's portion. He stated there will be a big levy in Forest Lake this year and people think the taxes all go to the City. Jeziorski agreed the separate line items should be explained.

4.0 Adjourn

Harrington stated I'll make a motion to adjourn. Mundle stated I'll second. Ronning asked any discussion? All those in favor? **All in favor.** Motion carries. **Motion passes unanimously.**

Meeting adjourned at 6:45 p.m.

Submitted by:
Carla Wirth
TimeSaver Off Site Secretarial, Inc.