

TO: Mayor and City Council

FROM: City Administrator Ron Johnson

SUBJECT: Financing Discussion of 318th St Project; 2nd St SW Street/Water Main Projects; 3rd St/Cannon Intersection Project

DATE: July 10, 2014

BACKGROUND

Council has earlier discussed the financing of 318th St and 2nd St SW, and also must consider the funding of the 3rd St/Cannon intersection project. Although most of the cost of the 318th Street project will be reimbursed through assessments as will a portion of the street construction portion of the 2nd St SW project, and a portion of the 3rd St/Cannon project, the up-front funding is still needed.

Staff has been given the direction to continue to look at the funding of these projects through the use of reserves as much as possible while still keeping a considerable fund balance in the General Fund reserve. While discussing options with Public Finance Advisor George Eilertson, staff pointed out that during a July 16, 2013 Council work session held for the purpose of looking at ways to spend down some of the General Fund reserve, a consensus of Council supported a balance of 50% in General Fund reserves. (memo from workshop, and resulting minutes, are attached for review) Staff is now reviewing the list of projects/disbursements noted from the July 16, 2013 meeting and the funding needed for this list of more current projects, and will provide options or recommendations.

It is important for us to know if Council wants to reduce the General Fund reserves to 50% (it is not recommended reducing to less than 50%) before providing options or recommendations identifying which projects to pay for out of reserves and which to issue a general obligation bond for.

REQUESTED COUNCIL ACTION

Confirm that the amount of General Fund reserves should be reduced to a 50% level.

Attachment(s): July 16, 2013 memo and work session minutes

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Aaron S. Reeves, City Administrator

SUBJECT: General Fund Reserve Spend Down

DATE: July 16, 2013

The 2012 audit shows that the City has an unreserved General Fund balance of \$1,855,251. In 2013 the City has received two large, unbudgeted payments of \$270,000 from MNDOT for the purchase of the City parcel for the interchange project and \$66,596 from Mediacom for back tower lease payments. This leaves a total unreserved General Fund balance of \$2,191,847 or 78.5% of the 2013 General Fund budget. The State of Minnesota and the City's auditor feel that a General Fund Reserve of 40 – 50% is adequate to meet working capital and small emergency needs. To bring the General Fund Reserve down to 50% the City would need to allocate \$797,128 towards future purchases. I am recommending we use this money towards future Capital purchases. It makes sense to use one-time money towards one-time purchases. I will summarize below my recommendations on how to allocate these funds. There are a few items that the City Council has already committed from this reserve that I will detail first. After that I will provide recommendations for Capital expenses that have not yet been committed by the Council.

City Council Approved Expenses from General Fund Reserve

Library Project Costs Over Estimate -	\$258,476
PD Chief and Squad Purchase -	\$60,400
Molenaar Clinic Access Road -	\$19,500
Total -	\$338,376

Recommended Expenses from General Fund Reserve

City's portion of Library Project Costs -	\$248,982
City Hall HVAC Update -	\$60,000
Paving of Pool Parking Lot -	\$50,000
Highway 19 Crosswalk -	\$37,000
Warning Siren for Hospital Area -	\$25,000
City's Portion of New Three Rivers Bus -	\$16,200
New PD Squad Computers -	\$12,000
New PD Squad Rifles -	\$11,000
Total -	\$460,182

Grand Total - \$798,558

I will go into more detail at the Work Session on each of these items. By using the General Fund Reserve for these items the City will be saving money in debt service costs and be able to better pay for future Capital purchases by freeing up funds in the various Capital Accounts that were designated for these items.

The Cannon Falls City Council met in a work session on Tuesday, July 16, 2013, beginning at 7:13 p.m. in the City Council Chambers. Present were Mayor Robby Robinson and Council Members Bill Duncan, Jay Sjoblom, Rodney Holst, LeRoy McCusker, and Merlyce Johnson. Also present were Aaron Reeves, City Administrator; Lanell Endres, Assistant City Administrator; Jeffrey McCormick, Police Chief; Justin Padgett, Library Director; and Tom Bergeson, Public Works Director. Council Member Morris Mattson was absent.

Call to Order

Mayor Robinson opened the City Council Work Session at 7:13 p.m.

General Fund
Reserve Review

Mayor Robinson explained that the purpose of the work session was to look at spending down some of the general fund reserve.

City Administrator Reeves began by stating that this was a pleasant change from past work sessions, which had been spent looking at ways to cut the budget and decrease expenses. Mr. Reeves explained that the City's general fund reserve was currently significantly higher than recommended, in part due to unbudgeted revenue.

Now that the LGA situation has stabilized, Mr. Reeves suggested bringing the general fund reserve back down to a reasonable level of 50%. He stated that in order to accomplish this, the City would need to allocate approximately \$800,000 toward future purchases. Some funds had already been allocated toward the new library project, the purchase of new vehicles for the police department, and cost overruns for the access road for the Olmsted Medical Clinic. This funding constituted approximately \$340,000, leaving a difference of approximately \$450,000 to allocate toward other projects.

The City's Financial Management Plan and Capital Improvement Plan had been reviewed and updated by department heads. The following funding recommendations were reviewed, totaling just under \$800,000.

- It was recommended that the City pay for its portion of the new library project in the amount of \$248,982 from general fund reserve as opposed to financing this debt over time. Once the last of the donations was received in 5 years, the project could be closed out. This would result in significant savings in debt service and interest payments, estimated at more than \$25,000.
- City Hall was in need of an HVAC system upgrade at an estimated cost of \$60,000, which would be offset by energy efficiency grants and other funding. This would result in long-term energy cost savings.
- The pool parking lot needed to be repaved. This had been

removed from the Capital Improvement Plan, with plans to add this to the debt service of another project. The estimated cost for this project was \$50,000.

- The Highway 19 crosswalk, approved by MnDOT, had an estimated cost of \$37,000, the majority of which was for the installation of solar-powered flashing lights.
- Radius testing had determined that an additional warning siren was needed for the new hospital area, at an estimated cost of \$25,000. Mr. Reeves stated that it made sense to complete this project sooner than later. Council Member Duncan added that siren coverage would also be needed in the expansion area as a result of the Highway 52 interchange.
- Cannon Falls would be required to participate in the purchase of a new bus for the Three Rivers busing service, which would be a cost share between the City and Three Rivers. The City's portion of this was estimated at \$16,200 for the year 2014.
- Capital Improvement planning for the police department had included the purchase of squad car computers and rifles over the next few years. The plan would be to purchase these at a combined cost estimate of \$23,000. Police Chief McCormick added that the new rifles would replace older military surplus weapons obtained from the City of Red Wing. These weapons would be more versatile and interchangeable with better capability.

Mr. Reeves stated that the above-listed items would provide the "most bang for our buck" in terms of cost savings, freeing up money for other projects, improving efficiencies, and addressing public safety issues.

Council Member Duncan stated support for this plan of action, as opposed to simply adding additional funding to individual departmental budgets.

Mr. Reeves clarified the general fund reserve was currently at approximately 66.5% and how the estimated \$800,000 excess was determined.

Council Member McCusker inquired about bringing the general fund reserve down to 45%. He also mentioned several business additions and expansions that would add to the tax base, along with additional Local Government Aid (LGA) revenue. He expressed concerns about rising utility rates and skepticism about the cost savings of an updated HVAC system.

Mayor Robinson expressed support of the 50% general fund reserve as an adequate cushion and to help cover anticipated rising expenses.

It was clarified that LGA revenue was allocated toward operating expenses and does not affect the general fund reserve. Mr. Reeves stated that transferring large amounts of money into utility funds to help lower rates could not be sustained over time. He stated that property taxes may need to be increased in order to pay for other projects. Tax revenue increases due to recent business expansion was an unknown at this point. It was suggested to review utility fund balances and proposed rate increases during the budgeting process for possible adjustments, as has been done in the past. It was also discussed that a healthy general reserve might be beneficial in promoting economic development opportunities that may arise.

Council Member McCusker inquired about other public works projects and how priorities were assigned. Mr. Reeves clarified that projects were prioritized according to urgency, cost savings, public safety considerations, and other factors.

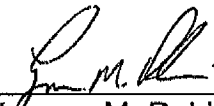
Police Chief McCormick added that he was working with Dakota County on installation of a warning siren to cover the Lake Byllesby campground area and possibly some of the golf course.

Following discussion, the consensus was to proceed with the above-listed plan of action. Mr. Reeves stated that this proposal would be incorporated into the Financial Management Plan.

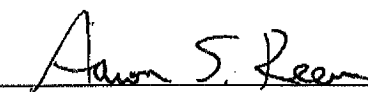
Adjournment

The Work Session adjourned at 8:13 p.m.

Adopted by the City Council of the City of Cannon Falls on the 6th day of August, 2013.


Lyman M. Robinson, Mayor

ATTEST:


Aaron S. Reeves, City Administrator