

City Council
Date: 6/5/07
REGULAR
Item: 10
Motion

ITEM: Consider accepting a proposal for financial management services from Ehlers

SUBMITTED BY: Susan Hoyt, City Administrator
Tom Bouthilet, Finance Director

SUMMARY AND ACTION REQUESTED: The city council is being asked to consider accepting a proposal for financial management/planning services from Ehlers and Associates, public finance advisors, for \$ 15,000. The city has met its needs while being fiscally prudent. To continue to do so and still meet the needs, sound financial planning is critical to local government. This plan incorporates all financial information and tax and levy impacts by taking into account identified future operating and capital needs and planning for them over time. It allows the city council to anticipate, to prioritize and to plan for its upcoming operating (general fund) and capital project needs by having a projection for how items will be funded and how the funding sources will affect the city's taxes as well as fund balances. The information is fed into the annual budget and the long term budget for over ten years. The plan and priorities are annually open to change based upon new information and shifting priorities. Having this information, puts the city council in a strong position to communicate to its property owners and residents about future projects, like street improvements, because a realistic budgeting plan will be in place. It avoids spending time and resources on capital projects until the budget identifies the project as financially feasible. The cost of this study will come out of the budget and will not be reimbursed by a future project. The staff recommends proceeding with this work in preparation for the 2008 budget. It will be the foundation of future financial planning and budgeting.

ADDITIONAL INFORMATION

This financial management service is separate from the utility sewer study that is already underway to provide the city council with the policy options and their financial implications that the city council will be receiving later this summer. This study is underway. The management plan will include the capital costs of the water and sewer systems.

This financial management plan adds reality to future planning and capital budgeting because it projects revenue and determines funding sources with tax/fund balance impacts. (Bonds are not a stand alone revenue source; the funds – fees, assessments, fund balances and/or tax levy - that pay for the bonds are the real revenue source.)

The financial management plan plans for increased costs in the general fund operating budget so one can plan ahead for increased costs of maintaining city operations such as more snow plowing with more roads.

Lake Elmo has identified several capital needs but has not determined how to pay for them. In the past, the city has spent time and money on major capital projects that likely could not all be funded at the same time without having tax impacts that might not be considered acceptable to the city council.

- In anticipation of a new city hall, appraisals and sketch plans were done. However, before more money is spent on this worthy project, it is important that it be prioritized and that the revenue source for a potential \$3 million more in cost (\$2 million has been raised) be determined in the context of all the other city's demands.

- The fire department and the city council have spent time evaluating potential purchases, like a ladder truck because there is an identified future need. Planning, now, for the location of a future fire station makes land use planning sense so it is on the radar and potential opportunities to locate it are not lost as the city grows. However, investing time and money into detailing specifications for a ladder truck or concepts for a station should not come until these projects are in the near term and financial options and impacts are identified.
- Specific road improvement projects come before the council because of a particular issue at the time – e.g. 28th Street. Attending to unique or emerging and unanticipated issues is part of the city council's responsibility. However, having a well defined capital improvement plan based upon a pavement management plan (underway) tied to actual funding sources and the tax impacts of these projects allows the city council to program these improvements and a great way to communicate them to residents/property owners. A change in priorities is always possible due to a compelling public health and safety need, but the financial plan allows the city council to understand what other projects must be delayed or what taxes might result from changing priorities and accommodating a newly identified priority.

Two examples of how this financial management plan is used are attached.

- The first is provided by Ehlers as an example of what the financial management plan looks like. (The first table is a summary of other tables; the general fund portion of the management plan gets quite detailed).
- The second is the 5 years CIP that was created by the Northfield staff and reviewed and approved by the city council. This plan was based upon the financial management planning work done by Ehlers and it was the first time the city actually knew how and when it could plan to implement a number of capital projects based upon a property tax rate direction given by the council, revenue from fees, assessments and fund balances. Prior to this time, the capital projects were essentially a wish list.

The city of Lake Elmo's CIP is a well organized document that realistically approaches financial planning and clearly identifies revenue sources. The additional information received through a financial management plan will allow the city council to approve capital plans that tie the general operating budget and capital budget to revenue sources and anticipate the property tax impacts and fund balance impacts from these decisions as well as anticipate the other revenue sources.

Some major CIP Projects in 5 year plan	Estimated cost in next five years
City hall	\$5,000,000 (\$2 m already available)
Heavy Rescue Vehicle	\$ 300,000
Ladder truck	\$ 900,000
Copy machine	\$ 40,000
Public works trucks	\$ 400,000
Park projects (even though these come from the park fund – anticipating the revenue and the depletion of this fund is important)	\$ 560,000
Road projects (only reclaim and overlays are identified at this time; pavement management plan will impact this project list and cost total.)	\$1,285,000
Total	\$8,485,000
Unidentified items that have been talked about: <ul style="list-style-type: none"> ▪ Playing fields (soccer, softball) ▪ Fire Station 	TBD

RECOMMENDATION:

The administrator and finance director recommend approval of this financial management plan. It will be a great tool to help the city council set both operating and capital priorities with the knowledge of how these costs will be paid for including anticipating the impacts on property taxes and other fees and charges.

SUGGESTED MOTION FOR CONSIDERATION:

Move to accept the not to exceed proposal for financial management services from Ehlers for \$15,000.

SUGGESTED ORDER OF BUSINESS:

Introduction	Susan Hoyt, City Administrator Tom Bouthilet, Finance Director
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Report	Jessica Cook, Ehlers Sid Inman, Ehlers David Callihan, Ehlers
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Questions	Mayor and Council members
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Questions from the public, if any Mayor facilitates
(up to 3 minutes)

Consider motion	Mayor facilitates
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Discussion	Mayor and Council members
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Action on motion	City Council
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ATTACHMENTS:

- 1 Proposal for financial management services
- 2 Sample management plan
- 3 Northfield CIP