

**Manager's Report
City Council Meeting
Tuesday, February 2, 2010
City Hall at 6:30 p.m.**

TO: Mayor Walter Ash Jr. and Members of Belfast City Council
FROM: Joseph J. Slocum, City Manager
DATE: Friday, January 29, 2010

Agenda Items:

10.C Discussion on an application for a Pawnbrokers License for James and Laurie Todd.

In order to approve such a request, State law requires that the Council first make an assessment that the applicant is of good moral character. There is no objective test for such a determination it really comes down to your own feelings. There is an application attached to your the packet along with an informational memo from the Police Chief. Staff, including the Chief should not be making judgments or recommendations on the issue of whether anyone is of good moral character. This is a decision for the Council to make and can be adjourned to another meeting if all of your questions have not been answered on Tuesday.

10.D Presentation of City Audit ending June 30, 2009 from Rob Dorr.

Due to extended printing times the Audit document will be handed out to you at the meeting. We wanted to get you the results as quickly as possible and we will be glad to arrange for additional discussion should you have extended questions.

One of the key items is the status of "Undesignated Fund Balance" or Surplus as many like to call it. As of June 30, 2009 surplus was \$4,448,760, which is up by \$244,976 from June 30th 2008.

We also have on this agenda a discussion scheduled on what the City's "Surplus Policy" should be and there are attachments to that agenda item which identify our Surplus history over the last dozen years and the results of a survey we did last spring of what other municipalities with similar sized populations carry for surplus.

I have asked Rob Dorr to comment on what combination of items have resulted in the change in "surplus" and to point out to you the pages where those items can be seen in the voluminous audit document. I have also asked him to comment on the quality of our financial procedures and what the audit says to him as a person who audits many municipalities.

10.E Request from the Belfast Maskers' Theatre Group to use Steamboat Landing Park for an extended period this summer from June 21st to August 18th.

When you have nice resources people who do use them want to use them all the more. This is true of the Little League, the YMCA and the Belfast Maskers' - each of whom has asked for additional use of park facilities this year.

The Belfast Maskers' started to use Steamboat Landing Park in 2008. Here are the time periods requested for use each of the last three years:

2008 July 19th to August 4th (2 and ½ weeks)

2009 July 9th to August 16th (5 and ½ weeks)

2010 June 21st to August 16th (8 weeks)

The Belfast Maskers' have discussed this latest request with the Parks and Recreation Commission who apparently have approved the request. We have attached to this packet an email from Parks Director Jim Bell who reports his concerns about turf damage, maintenance and repairs caused by the staging, seating and port-a-potties. I have asked Jim Bell to find out whether this activity will interfere with any group such as the Frisbee Football group that uses the park throughout the summer. It appears that the Celtic Festival and the Marine Heritage Festival will be unaffected. There is a letter submitted by Liliias Outerbridge on behalf of the Maskers' in your packet and I believe Masker representatives will be present at the meeting to address any questions you may have.

11.F Discussion and possible action on 2007 Tax Foreclosures.

- v In the fall of 2007 the Finance Department mailed out 3,750 real estate tax bills.
- v By the spring the Finance Department needed to mail out about 400 plus notices to delinquent taxpayers that if they did not pay within 30 days a tax lien would be filed against their property and they may lose their property.
- v That summer the Finance Department had to mail out certified notices and file 242 tax liens on properties that still had not paid their 2007 taxes. These notices say that if the bill is not paid they may lose their property and encourages the owner to contact the Finance Department.
- v In November of 2009 the Finance Department sent out courtesy letters to owners, advising of the impending foreclosure and offering information and timetables on "Poor Person Applications.
- v In December of 2009 the City sent out eighty-two 45-day Notices of Foreclosure to owners and any mortgage holders of records.
- v On January 19, 2010 the 2007 tax collection process ended and the City fortunately had to foreclose on only 3 properties. Each is a mobile home and one of them is unusable.

First, I commend the Finance Department for doing such a comprehensive job in collecting these taxes and doing everything they can to see that we only foreclose when we just absolutely have no other choice. The number of phone calls and conversations tied to this process is beyond estimation.

Secondly, the foreclosure process now turns to the City Council to see what they wish to do with the properties the City now owns. The rules afford the Council the ability to offer the property back to the owners if they can come up with the resources to pay off all outstanding taxes right up to the dates of a bid opening. The Council has 60 days to decide whether to put the properties out to bid. If we do not put them out to bid then the City retains ownership. There are 2 memo's attached to this packet from City Treasurer Rickie LeSan on this matter.

10.G Discussion and consideration of approving authority to the City Manager to appoint "Fair Hearing" Officers to hear General Assistance appeals.

In order to avoid calling a special meeting of the Council to appoint a Fair Hearing Officer when there is an appeal of a General Assistance decision we are asking that you allow the City Manager to attend to this detail when it is rarely needed. There is a memo from Diane Wood attached to the packet on this issue.

10.H Introduction of a proposed amendment to the Zoning Ordinance to amend the definition of a professional office and establish a definition of a "service business".

This is a proposal from the Planning Board and City Planner Wayne Marshall has a memo attached to this packet to explain this proposal. I believe Planning Board representatives will be at the meeting to address questions or comments.

10.I Discussion of draft outline of the process of updating the City's Waterfront and Downtown Master Plan and how it will interface with the Coastal Walkway project.

Wayne Marshall has an attachment to this packet on these subjects and will provide both an update as well as an outline on them at the meeting.

10.J Discussion and possible action on setting a Surplus Policy.

Council set a goal this year to address this issue.

I have attached two sheets in your packet. The first is a spreadsheet identifying what our history has been with Surplus since 1998. Note the column, which depicts how much we spend from surplus each year. Please also note that many years Surplus actually goes down.

Here are some things to consider:

#1 Where we were on Surplus?

As of 6/30/09. (from the Auditor) \$4,448,760.
Since 6/30/09 (less) 296,750 Budgeted amount.
minus 8,600 Steamboat Landing Park electric
minus 100,000 Economic Development Director
minus 13,000 2 Franklin Street Renovations
minus 10,000 Boathouse Roof

Net \$4,020,410

plus 254,972 from closed out capital projects 12/1/09.

Today's Surplus Estimate = \$4,275,382

#2 What do we do with surplus every year?

We add to Surplus by:

- not spending down every budget line (unspent money raised in taxes)
- adding in collected revenues in excess of numbers predicted in budget
- less any adjustments the auditor feels we need to make such as
 - write-offs for accounts receivable deemed uncollectable.

(i.e. ambulance receipts)

We Spend Surplus by:

- annually taking some of it for budgeted capital items (average \$398,000 per year)
- spending some of it during the year – such as the recent funding for the position of Economic Development Director.

#4 Why have a Surplus?

First, to return these monies back to the taxpayers in annual budgets to pay for capital projects that do not need to be done every year.

Second, to help the City address the unexpected. Budgets are at best tight estimating efforts that seek to identify cost that will be incurred more than a year into the future. Predictions run from being right on to being right off. Financial needs also crop up for things we never planned to spend money on.

Third, for cash flow purposes. After tax bills start getting paid in October we are flush with cash for several months before we see our bills begin to exceed our monthly revenues. The City collects the taxes for the School and the County as well as for the City (total about \$16,000,000). We also pay the County and the School system according to a schedule. Presently the lowest cash position all year hovers at \$3,000,000 but one million of that belongs to the Sewer and can't be used for City services. Hence the City has about \$2,000,000 in cash on hand at its worst point in the year.

Fourth, if we did not have enough in Surplus to move quickly on a large expense we would have to go and borrow which has costly transaction fees associated with it- \$5,000 to \$10,000 in transaction cost is typical.

Fifth, some communities use Surplus to fund large projects deemed to be of special importance to the Community. In Belfast's Case: Library, YMCA, YMCA Pool, Hutchinson Center.

Sixth, some communities use surplus to subsidize operational cost when times are particularly bad. While I generally do not recommend this I will later address a way in which we might use some present surplus to help keep down the cost of future budgets.

Seventh, some communities keep a large surplus to help them should they have a risk of sudden exposure to a major loss of tax revenue. Bucksport for instance with its paper mill has the highest proportionate Surplus of any municipality around. The last time we checked on this it was about \$6,700,000.

#5 What should our surplus be?

Our Auditor last recommended \$3.5 million to \$4, million as three months of gross operating expenses, which include School and County.

Other communities try to fall within some range or 7 to 12% of operating cost less debt service. In the end Belfast should look at its own patterns of spending and then consider setting goals for how we want to be in the future.

I generally recommend that you set a goal of having Surplus to grow by “a little” more each year than you plan to spend each year. This gives you a cushion to address the unexpected and in each succeeding budget you can make adjustments downward to help maintain the level that you want.

To gauge the use of surplus in concluding budget deliberations we first look at the audited statement for the year before and identify the audited surplus. Next we deduct what we recall spending from it during the current fiscal year. Then we review monthly reports on both spending and revenues in the current budget to assess their likely impact on surplus. Unfortunately, the best we can do when we actually pass a budget is to render an educated guess. If the subsequent audit suggested our numbers were off we can make a correction in the ensuing budget year.

What’s “a little” more than what we plan to spend – perhaps \$100,000. If this causes surplus to grow out of proportion to the times, then we make budget adjustments in the following year. We adjust every year.

#6 What to do with any surplus we presently see in excess of the amount that Council sets?

There are plenty of opinions on this one. Here’s mine

First, use some of this money to set up an Operational Reserve Account for the City much the same way we set up a Capital Project Accounts or a Capital Reserve Accounts. An Operational Reserve Account would “hold in reserve” some money for some limited specific items that are subject to significant change depending on factors somewhat removed from our control.

Estimating health insurance cost, for example, is difficult. Patterns over time which suggest annual increases of 12-15% and we budget that way in April to ensure that we have the money we need the following December when the rates are actually set. The most recent audit revealed that for a variety of

circumstances- including an improved claim history- we did not spend \$81,000 in our annual health insurance budget line. Just 2 years ago we had a 27% increase due to our then high experience ratings. I suggest that rather than have this unspent \$81,000 simply fall back into surplus that we instead place it in a health insurance line in an Operational Reserve Account for health insurance in future years should we experience an unexpected spike in rates.

This option would encourage budget people to perhaps be less conservative in our cost estimates because we would know year to year that if rates exceeded expectations there would be a specific funding place where we could ask the Council for help. We might budget for 10% instead of 15 per cent- saving the taxpayer of a new burden and keeping down unnecessary additions to surplus that would invariably be used for something quite different than for the purposes for which it was originally budgeted.

What other types of Operational Reserves should be set up?

- road salt purchases
- fuel/energy cost
- law enforcement overtime
- public works overtime
- unemployment and other insurances
- animal control veterinary services
- asphalt

Money in an Operational Reserve could be spent without prior approval of Council in the same way our Capital Reserves operate.

Operational Reserves- for limited budgets lines that are exposed to large percentage swings from one year to the next could spread the impact of large price fluctuations over many years and allow taxpayers a cushion over time.

Second thought on use of Surplus in excess of a selected Surplus policy: Consider funding the new Economic Development Directors position for 3 full years from Surplus now. This puts a sunset of sorts on the position to see whether it has proven its worth and applies the daily pressure to demonstrate benefits to the City as we go. Candidates for the position will be concerned that this is a newly funded position and hence more at risk than established positions. Economic development is a gardening process and it takes real time and extended effort. We have repeatedly advised that we should not expect strong results quickly and that we won't really know how successful this will be for at least two and a half years. This gives the incentive to produce without the new tax burden until we have a better picture in a few of years.

Final suggestion: -- identify all the things that the City wants and decide which ones are priorities and important. This can be done now as part of the Capital Project Process during budget deliberations.

11.K Discussion of the 2010-2011 Budget Process.

This was continued from last meeting to see if the Council had any directions in how, what or when they want to see the budget process proceed and be accomplished. If you want something estimated for future budgeting this is a good time to let us know.

11.L Discussion and consideration of approval of a labor contract with the Public Works Union.

This 3-year contract runs from July 1, 2009 to June 30, 2012. The proposed contract changes only three things from the existing Contract:

Three-year agreement effective 7/1/09 through 6/30/2012.

- Addition of fair share language
- 100% Health Insurance premium for employee paid by City 7/1/09
- ½ percent across the board wage increase 7/1/09
- 2% across the board wage increase 7/1/10
- 2% across the board wage increase 7/1/11

The major change here is the exchange of the Union employees obligation to pay for 10% of their personal health care cost for a 2 and ½% smaller salary increase than the police and non-union employees received. This is simply a reversal of what was negotiated in the last contract where the Union members received a net increase of 2 and ½% more than what other employees received in exchange for picking up the obligation to pay 10% of their health care cost. In 2007, 2008 and 2009 this was a losing trade for the Union members. Today our cost are down and it's a good time to reverse this practice.

The City tried in 2006-2007 to get all employees on a program where every employee paid something towards their personal health insurance. The City's contribution to spousal or child coverage is barely over 10%- among the lowest in the state. We have good benefits for the employee but poor benefits for the family. As we look to the future we will look to blend a system where the employee pays something for their own insurance and the City provides a better benefit for the family.

The "fair share language is becoming more standard and will require some contribution for employees who choose not to join the union but who nevertheless benefit from the Union Contract.

I recommend support for this new Contract. The financial adjustments called for here can all be handled by the existing budget.

10.M Discussion and action on a salary increase for the City Manager.

We have settled with the Police Union at 3%, The City employees at 3% and the Public Works Union for ½% as outlined above. I did not feel that it was appropriate to address myself until every other City employee was addressed. I leave the discussion and action if any on this matter to the council.

10.O Discussion and possible action on the purchase of a privately owned lot at the corner of Miller and Front streets.

Last Spring I recommended in the budget report that the City consider buying the ½ acre vacant lot at the corner of Miller and Front Streets, which was adjacent, but not part of Belfast Common. Belfast Common as most recall was the sight of the former Penobscot Poultry Plant and was given to the City by MBNA. Most people think the City owns the corner private property because it is essentially a mown lawn that lies a blade of grass away from the City owned portion of this block.

Why buy it? Because it really is part of Belfast Common today- only a blade of grass away. The moment someone else buys it and turns it into a multi-family or even a couple of single high priced homes, then whatever happens at the Common will have an impact on those residences and whatever happens at those residences will have a dramatic impact on the future use and enjoyment of the Common. While the Common may be somewhat under utilized today, I have no doubt that Park area, along with the Steamboat landing across Front Street; will only see more and more use in the years to come. In just the past 2 ½ years we have started both the Celtic Celebration and the outdoor performances by the Belfast Maskers' in this area. Almost every square inch of this privately owned lot is beautiful and I believe has - permanent- views of the Harbor and Penobscot Bay.

The privately owned land at Belfast Common is on the market for sale at a price of \$365,000, a figure that I think is consistent with its value. Even in this market I believe that someone would pay \$200,000 to own one half of this property. The City should have bought this property when it was sold to its current owner years ago but to my understanding it was not on the market for very long.

This fall the Council authorized me to make inquiries about this property and informally asked that I try to negotiate the best deal I could for the City and to return with a specific proposal that the Council could properly consider and conclusively make a decision on. I have been involved in negotiations with the owners representatives for some time, worked with some outside expertise and I am pleased to report out to the Council a specific proposal for Council's consideration and a decision.

I propose that the City Council authorize the payment of \$299,000 for this property from undesignated fund balance and secondly to accept a gift of value in the amount of \$66,000 back to the City- representing the unpaid purchase price from the Owner. In accepting such a gift we are recognizing the full value of the gift and are aware that the owner in making the gift should be entitled to every tax benefit that may arise from donating such value to the City as a municipal corporation. When MBNA and Bank of America gave land to the City they were entitled to also pursue such tax benefits for themselves.

If the Council says yes the benefit to the City is immediate and no dollars need be spent to have this beautiful open space immediately useable and enjoyed by the people of this community. I know that the

Parks and Recreation Commission has supported the City's acquisition of this property for some time. This proposal has been reduced to a purchase and sale agreement and all that remains to conclude an agreement is for the Council to approve of these terms and have the minutes of such approval available to the owner within 5 business days.

This is a yes or no proposal. There are not further negotiations to be had. The City currently assesses the property at \$284,000 in value but our properties are not assessed at 100% of full value. You can see this property on our tax maps at Map 37 Lot 55 on the City Website under the Assessors Office. You could note on that tax page that the City currently own Lot 49 to the west, Lot 55A to the South and Lot 54A to the East. I have also asked the Public Works Department to put some cones around it this weekend so people could visualize the importance of this lot to the whole of the adjoining City owned park areas.

I recommend this purchase at this price and under these terms.

That's it for this meeting. We could have added more to the agenda, which is indicative of how busy we all are. I look forward to hearing from Bruce Mailloux on what they may anticipate on school cost next year. Have a safe and enjoyable weekend and a special thanks to those City employees who will be working this weekend to make it just so.