

January 31, 2003

***The Honorable Mayor and Members of the City Council:***

Each year the City Manager prepares an annual report which is submitted in January to the City Council following the close of the fiscal year. The attached report contains information from the various departments which describes their activities for the past year and an unaudited financial report which gives an outline of the financial health of the City at the end of fiscal Year 2002. A complete audited financial statement will be submitted later in the year. The City Manager's report contains a summary of the activities of the various city departments and statistical data which may be used for comparison purposes from year to year. The primary purpose of the Annual Report is to provide an historical perspective of the city's operations which provide useful information to the Mayor, Council and general public about the city's operations.

The General Fund of the City, the fund that provides all general government services to the community, had a carryover balance at the end of 2002 of \$1,132,000. This is up from past years and reflects efforts by the city staff to defer spending due to the budget crisis being experienced by the state and, ultimately, by the City of Albert Lea. The annual carryover is normally used for capital projects such as road construction and the city's portion of the installation of sewer and water lines. Because of the anticipated cuts in the 2003 Local Government Aid from the State of Minnesota, I would recommend that this money be set aside to replace any reductions that the State may impose.

The most significant revenue issue in the 2002 Budget was the decline in the utility franchise tax revenue. The tax brought in approximately \$400,000 less than the recent historic pattern which had been the basis for the budget projection for the year. Even with the decline in franchise tax revenue the City was able to put together a significant carryover. This is encouraging in light of the probable cuts we will have to make due to a L.G.A. decrease.

The Local Government Aid from the State of Minnesota was \$6,383,540 in 2002. This is the highest amount that the State has ever provided the City and reflects an increase of over \$1 million in support that was provided by the State in order for us to reduce our property tax levy in 2002. The level of LGA has now become a serious issue for the state government and is the subject of a great deal of debate. Because Albert Lea was one of the sub-regional communities in the State to receive extra LGA, we are particularly vulnerable to reductions in Local Government Aid.

The local property tax levied in 2002 was \$1,295,000 of which we received \$1,070,000. In order to further buy down the effects of property taxes on local taxpayers, the State provided a portion of the city's property tax levy in 2002 in the form of market value adjustment. This is another aid program which totaled \$251,667. There are early indications that this property tax assistance, which goes directly to the property taxpayer, will be one of the first

things that is eliminated by the legislature. This will mean that the base city property tax will increase by the amount of market value adjustment aid if there is no other increase in revenue.

The property tax collected in 2002 was \$1,000,000 less than during 2001, which reflects the increase in Local Government Aid we received from the State of Minnesota. This was the intent of the extra aid and the City passed on the benefits directly to the taxpayers. I anticipate that this increase in Local Government Aid of \$1,000,000 will be eliminated as part of the 2004 State Government Budget process. How we will make up the \$1,000,000 loss in revenue will be a matter for the City Council to decide and, in all likelihood, the staff will recommend a combination of local property tax increases, cost shift and cuts in service.

The Water Fund experienced a loss in 2002. This was anticipated and the total loss at the end of the year was \$91,841. The Sewer Fund lost \$501,302 on operations and \$524,954 from a write-off of assets that were taken out of service. This made the total loss \$1,026,256.

The losses in the water and sewer utilities were expected by the City and there was a discussion during the year about how the situation would be addressed. There were two problems that were causing the loss, the first was the Farmland plant not operating and the second was accelerated depreciation that required new investment in physical plant and equipment. Losing Farmland as a customer meant that we had a significant shift in revenue since they were our largest customer. This loss could not be replaced by any other method. This resulted in a significant rate increase approved by the City Council during 2002. The accelerated depreciation of assets caused us to review our entire depreciation schedules. Hopefully a solution was developed during the year that will resolve this problem over a period of time.

The Refuse Disposal Fund lost \$65,728 during the year. This fund provides a service to the community by providing a waste disposal facility for public use. The charges at the facility did not cover the costs which resulted in the loss. The City is provided the facility in order to prevent the unlawful disposal of waste, used appliances, debris and rubbish, limbs and leaves in other locations within the City. For this reason we kept the charges low for disposal so the public would use the service. If the material was disposed of in the parks, ditches and other unused properties of the community, the collecting of the material would have cost more than we lost on the operation.

There were a number of development issues that occurred during the year. The single largest item was the demolition of the Farmland Foods plant. Through an agreement with Farmland Foods, Seaboard Corporation and creditors, the City of Albert Lea agreed to release funds escrowed for the demolition of the plant. The money that was escrowed came from insurance proceeds paid to Farmland Foods after the fire at the plant. By releasing the funds to help pay for the demolition of the buildings, the City was able to accelerate the process to get the plant torn down. As part of that same agreement, the City will own the real estate when the demolition is complete and take on the long term responsibility for any environmental cleanup. This will give us a significant industrial site within

the community which may be used for other development purposes. This is a site fully served by utilities and roads and therefore is prime development property.

At year end the earth movement for a new Wal-Mart store began on the east side of town. The store will be a 155,000 s.f. retail facility. The City contracted to provide public improvements including roads, sewer and water to the site with a total estimated cost of \$2.1 million. Wal-Mart will pay the City directly \$1.5 million for its share of the cost.

During the year the Albert Lea Port Authority in cooperation with Greater Jobs, Inc. opened a small business development center. The center is located in the Port Authority's North Building #3 and occupies two-thirds of the space. By year end the facility was the home to three new businesses with negotiations underway for four additional businesses to be located in the center.

During 2002 the City changed the organizational structure for the Housing and Redevelopment Authority. For the past 23 years the Housing and Redevelopment Authority Board consisted of Members of the City Council and the City Staff provided management and staffing for the agency. The City Council decided that the operations of the Authority would be best served by creating a new independent Housing and Redevelopment Authority Board and employing its own staff. This was accomplished by changes to the board appointments, the employment of a new Housing and Redevelopment Authority Director and the transfer of the City staff employed for HRA purposes to the new HRA. By year end approximately half the employees had been transferred with the balance either terminated through the elimination of their position or re-employed in other positions through bumping rights under union contracts.

A downtown redevelopment project was initiated during 2002 which included the acquisition of the Lea Center Building. The City ended the year by owning the former Freeborn Bank Building, the Jacobson Apartment Building and the Lea Center property. A tentative agreement with Metro Plains Housing Corporation was entered into with the intent that Metro Plains would redevelop the Lea Center property. The City began the process of acquiring additional property to support the Freeborn Bank project. This was the first major effort at downtown redevelopment in a number of years. The City's plan was to pull together grants from the State of Minnesota, tax increment financing and other federal tax credit programs to accomplish the redevelopment.

During the past year I have enjoyed working with the City Council and City Employees. I believe the activities of the various departments reflect the high quality of our personnel. I am proud of the performance of the city operation and our employees. I want to express my appreciation to the Mayor and City Council and the staff for their continued support.

Respectfully submitted,

Paul T. Sparks  
City Manager