

January 30, 2004

The Honorable Mayor and Members of the City Council:

The City Manager's Annual Report is submitted to the City Council in January of each year following the close of the fiscal year. The attached report contains information from the various departments describing their activities for the year and statistical data about the various departmental operations. The report includes an unaudited financial report which gives an outline of the financial health of the City at the end of fiscal Year 2003. The audited financial statement will be submitted later in the year and will be entitled the Comprehensive Annual Financial Report. The City Manager's Annual Report is designed to provide operational information, data that may be compared from a year to year and performance information about departmental operations.

This will be the 26th City Manager's Annual Report that I have prepared for the City of Albert Lea. Due to my resignation effective the 31st of December, 2003, this will be the last annual report. Starting January 1, 2004 I have accepted a position as the Executive Director of the Albert Lea Port Authority, the economic development arm of the City of Albert Lea, created in 1987. I have been the Executive Director for the Albert Lea Port Authority since 1987 on a part-time basis but now will move to a full-time position operating the Authority.

The General Fund of the City, the fund that provides all general government services to the community, had a carryover balance of \$557,989. This figure includes recovery of \$144,000 in utility franchise fees that should have been paid in 2002 by Alliant Energy. Due to an accounting error Alliant failed to make the payment and, at our request, completed an audit of amounts due the City of Albert Lea in late 2003 which resulted in an agreement with Alliant Energy that they would pay the amount underpaid the previous year. Also included in the carryover figure is \$119,000 received from Alliant Energy on the shared energy savings program for several energy saving projects that were initiated during the year. The net result is a non-extraordinary carryover of just under \$300,000. I am recommending that this amount be added to fund balance for the General Fund to be available for appropriation as required.

The extraordinary fact is that there was a carryover of any amount. This positive result occurred because of efforts made by the various departments to cut their costs and enhance revenues to help the City accommodate a major cut in local government aid made by the State of Minnesota. The State of Minnesota made a mid-year cut in the Local Government Aid of approximately \$750,000. This occurred after the Budget was adopted, after the fiscal year began and several months into the year so that it was impossible to take any decisive actions to accommodate the reduction. That the City government was able to absorb this reduction in revenue from the State and still accomplish a balanced budget by year end speaks well of the departments and their extra efforts.

The property taxes collected during the year totaled \$1,603,816. This is significantly more than the amount collected in 2002 and reflects the beginning of the shift from state local government aid to the local property tax. This trend will continue into the future and it makes it important for the City to pursue alternative sources of revenue to fund city operations.

The Water Fund recovered well in 2003, the result of a rate increase that was put into effect at the beginning of the year. The operating loss in 2002 was \$91,800. In 2003 the City water fund showed an operating profit of \$183,228. This will substantially improve the water fund's financial situation for several years into the future.

In 2002 the Sewer Fund lost approximately \$500,000 in operations and over \$500,000 in the one-time write-off of capital assets taken out of service for a total loss in excess of \$1,000,000. We instituted a major rate increase in 2003 which brought the loss down to \$393,000. This is somewhat deceptive in that there are a number of unusual charges and amounts taken as revenue that were non-cash and distort the outcome. The operating loss was \$447,813. There were additional non-operating expense charges that increased the loss to \$574,000. When the contributions from developers for sewer lines built and assessed were added, the book loss was \$393,000. It will be necessary for the City to look at a rate increase during 2004 to be effective in 2005 to correct the operating loss situation. The major causes of the sewage system financial problems are the loss of a major wet industry customer, Farmland Foods, due to the fire, and aging infrastructure which has to be replaced on a schedule faster than the original depreciation schedules set up for the wastewater treatment system.

The Refuse Disposal Fund, the operation of the transfer station, continues to show an annual loss. The City operates the transfer station as a service and the revenues that are generated are less than the costs created by the operation. It is impossible to reduce our operating hours and costs any further. Our main charges are for disposal of the materials that are received at the transfer station, which charges exceed what we charge the customer to take in the material. We have always set our rates at what we feel the market will be most comfortable with so that we do not have appliances, tires and other rubbish and debris disposed of in inappropriate places. We have been able to keep illegal dumping to a minimum because we provide a convenient facility with prices that are reasonable for the customer. If prices are raised to cover costs, I would be concerned that some members of the public would avoid the cost and the problem would be compounded because the waste would be put in illegal dumping sites instead of at the transfer station.

During 2003 the Farmland Foods plant was completely demolished. At the end of the year the City still held funds in the escrow account that will in part be paid back to Farmland Foods when the land is titled to the City. The escrow account stood at \$424,000 at the end of the year with \$381,000 belonging to Farmland Foods and available to either make final payments to the contractor or to be returned to the company. The difference between the account balance and the amount owed to Farmland is interest earnings which belong to the City of Albert Lea.

The Wal-Mart project was completed in 2003 and the store opened in late October. This was a major public construction project totaling in excess of \$2,000,000 which was completed on schedule.

Redevelopment activities in the downtown moved ahead in 2003 with the Lea Center project receiving its Minnesota Housing Finance Agency funding in November. The City submitted an application to the Department of Employment and Economic Development for funding to complete the project. The City anticipated approval of the grant application with notice to come in late February, 2004. Negotiations with Metro Plains to sell the project to them for redevelopment as a moderate income housing building were completed during the year.

The City entered into an agreement to purchase the Hanson Building located immediately east of the former Freeborn Bank Building. This will give the City all of the property formerly held by the Bjornes family on that block. Consideration for a redevelopment project for the Freeborn Bank building was discussed during the year. Further planning and advertising of the project in 2004 will occur early in the new year.

During 2003 the City Council made the decision to separate the Albert Lea Port Authority from the City operation and to appoint a new operating board for the Authority. This was accomplished in November and completed by the end of December of 2003.

Several items were left unresolved at the end of 2003 and still need to be addressed by the City Council in the very near future. These include the development of a policy for the use of returned police and fire pension funds, a street light utility and a storm water utility.

The policy for the police and fire funds needs to be adopted so that there is a clear understanding under what circumstances the interest earned by the fund or any amount of the principal may be used. The policy should include a provision that if there is principal borrowed by the City from the fund it will be repaid over a reasonable period of time. The policy should further provide that the interest earnings may be used annually for general government purposes. The longer such a policy is in effect the more force it has and the better it enables the City to preserve the principal base for the future. This fund constitutes a legacy that the City earned due to the excess amounts transferred to the police and fire pension funds in previous years. This legacy should not be lost due to the lack of a long term policy and foresight on how it should be used.

The need for the storm water and street light utilities has been discussed in the past. It is very important that we recognize that both of these cost areas are going to accelerate faster than the cost of inflation and that there is no way for the general fund or the property tax base to continue to provide the services as they have in the past. Since

both of these are clearly identifiable areas that can be changed to a service delivery utility, I would recommend that this process proceed to completion during 2004.

2003 has been a year of significant change for both me and the City. For 25 years I have enjoyed working with the City Employees and the City Council to serve the City of Albert Lea. I am always impressed by the high quality of the employees and their interest in providing services to the public. The experience of working with everyone in Albert Lea has been very rewarding for me personally. I want to take this opportunity to thank all the members of the City Councils for the past 25 years and all of the employees of the city government during the same period for the efforts they have made to make my employment both easy and satisfying.

Respectfully submitted,

Paul T. Sparks
City Manager