



Annual Budget

Fiscal Year 2017



Adopted Budget
December 5, 2016

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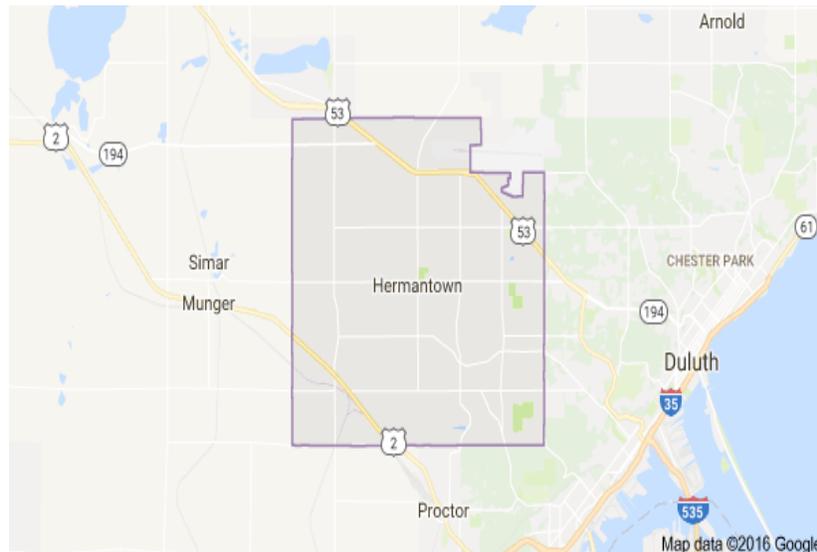
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The Community



The City of Hermantown is located in northeastern Minnesota near the shores of Lake Superior. Situated adjacent to the City of Duluth, in St. Louis County, the community of Hermantown has the advantage of being close to major shopping (Miller Hill Mall) and entertainment facilities of a larger city, while maintaining a rural setting. This advantage has served the community well with its thriving economy, quality educational system and growing population, while helping provide a quality of life unequalled elsewhere in this region. Hermantown’s motto is “The City of Quality Living”.



City Statistics

Area - 34.35 square miles
Persons per square mile – 274.1
FIPS Code – 2728682
County – St Louis
Population - 9,706 (as of 2014)
Males - 5,176
Females – 4,530
Under 5 years – 5.9%
Under 18 years – 22.6%
65 years and older – 13.9%
Median resident age: 41.3
Estimated median household income in 2013:
Hermantown: \$65,966
Minnesota: \$60,702

Estimated median house or condo value in 2013:
Hermantown: \$205,491
Minnesota: \$180,100

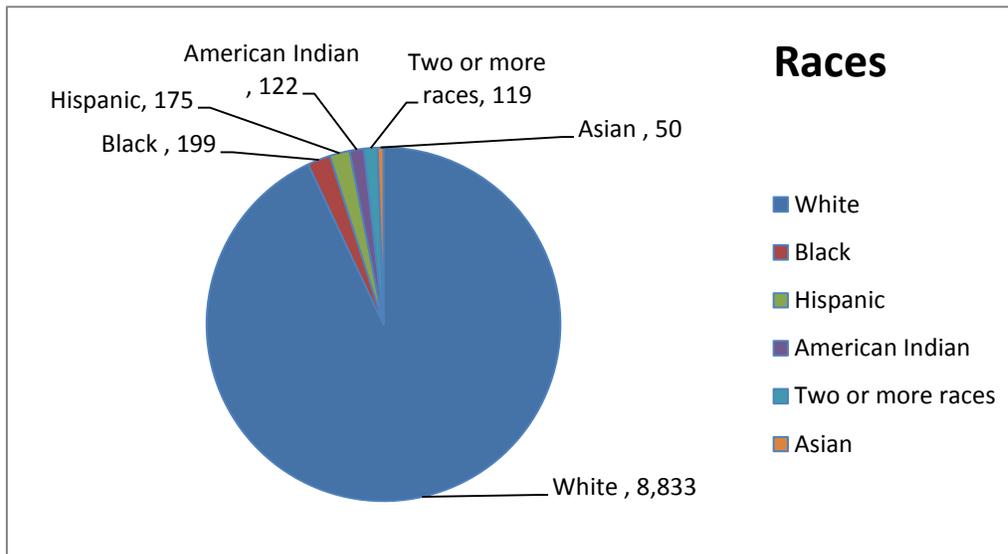
Median gross rent: \$955

Households 2010-2014 – 3,452
Persons per household – 2.54

**Data Source: MN State Demographer*

**Data Source: ESRI Community Profile, US Census Bureau*

Races in Hermantown, MN (2013)



Public Schools in Hermantown:

Hermantown Elementary K-4 (5365 W Arrowhead Rd)

Hermantown Middle 5-8 (4335 Hawk Circle Dr)

Hermantown Senior High 9-12 (4335 Hawk Circle Dr)

Educational Attainment – Age 25+

Total – 6,779

Less than 9th Grade – 2.0%

9th – 12th Grade, no diploma – 4.3%

High School Graduate – 25.8%

GED/Alternative Credential – 3.2%

Some College, No degree – 20.6%

Associate Degree – 9.6%

Bachelor's Degree – 25.1%

Graduate/Professional Degree – 9.5%

**Data Source: MN State Demographer*

**Data Source: ESRI Community Profile, US Census Bureau*

Total number of Businesses (2012) – 1,021

2016 Principal Employers:

Walmart, Fleet Farm, Independent School District No. 700 (Hermantown), Stepping Stones for Living, Menards, Sam's Club, General Security Services Corporation, Kwik Trip, Kolar Dealer Services, Edgewood Vista, Natural Resources Research Institute (UMD) and Duluth Federal Prison Camp.

2016 Principal Taxpayers:

Allete, Inc., American Transmission Co. LLC, Walmart Property Tax Department (includes Sam's Club), IRET Properties (Edgewood Vista), Steve R. Carlson, Deerfield Luxury Townhomes, BDP Enterprises, Gander Mountain Sporting Goods and Duluth Clinic LTD.

Elections

2016 - General Elections - Registered Voters - 6,508
Early Voters - 1,159
Ballots Cast – 5,263
81% Voting

2014 - State Elections - Registered Voters – 6,182
Ballots Cast – 3,205
51.8% Voting

Public Safety

Fire Protection – 3 Stations
23 Active members
ISO Class 6

Police Protection – 1 Station
15 Sworn Officers

Public Works

51.9 Miles of Asphalt Streets Maintained
19 Miles of Gravel Roads Maintained
36 Cul-de-sacs
Streets – 70.9 Miles

Recreation

325.95 Acres of City Parks, Playgrounds, Playfields and Trails
4 Parks, which encompass 2 playgrounds, 7 baseball/softball fields, 5 soccer fields, 1 skate park and 1 walking/skiing trail

Utilities Data

Municipal Water System – purchases all drinkable water from City of Duluth
2,109 Connections
65.06 Miles
435,616 Gallon Average Daily Usage
535 Hydrants for fire control
750,000 Gallons system capacity – 2 water storage tanks

Municipal Sewer System – Western Lake Superior Sanitary District
1,896 Connections
68.37 Miles of Sanitary Sewer Mains
432,876 Gallons Average Daily Usage
790 Manholes
15 Lift Stations

City Bond Ratings

AA Standard & Poor's - 2014A, 2016A and 2016B General Obligation Bonds
AA- Standard & Poor's - 2010A, 2012A and 2012B General Obligation Bonds

Community History

The history of Hermantown is a story of independent people interacting with big government. It started at the very beginning, with pioneers who were granted a piece of the wilderness by the government after living on it, working it and improving it. August Kohlts was granted the first homestead in the Town of Herman in 1872, after living on the land for five years. He and a friend hauled supplies to their land west of the Midway Road by hitching two St. Bernard dogs to a homemade wagon and following a crooked trail (now the Hermantown and Five Corners Roads) through the woods.

Much has been said about where the town got its name. Unfortunately, this cannot be proven, but we know from county records that it was referred to as the Town of Herman in 1873 when taxes were received from the town. At this time, there were very few people living in the town. The man who headed the survey crew in the town was named August Herman and the town derived its name from him.

By the turn of the century, the Town of Herman had a population of 625. There was rail passenger service into Duluth from Adolph, named after Adolph Bjorlin, who had a general store at the corner of Midway and Morris Thomas. Herman had its first land boom, the result of rumors that the government would be building a new seaway connecting Duluth with the East Coast. Herman land sold for \$250 an acre in 1897, compared to prices of \$12.50 an acre forty years later.

Ten years later, the township had grown by 300 people, built three new two-room schools, and had a town hall in an old one-room school at LaVaque and Hermantown Roads. There were several sawmills, a Herman Ice Company cutting ice from Mogie Lake and selling it for cold storage to nearby dairies, a slaughterhouse at Haines and Hermantown Roads, and carrier mail service in the township.

But the growth of the township was set back by the great forest fire of 1918, which swept through Herman and 36 other townships, including Cloquet and Moose Lake. Hardly a building in town was left standing. Among the few that did survive were the three two-room schools, the church at Maple Grove and Midway, the town hall and the Woodmen Hall (the center of all activity in the township at the time). With help from the Red Cross, the town was quickly rebuilt, but the 1920 population was down to 842.

Herman's population would soon get a boost from a new wave of homesteaders. During the hard times of the Depression, the federal government built nearly a hundred "subsistence homestead" projects designed to move people trapped in poverty in the cities to new homes in rural or suburban locations. One of the two Minnesota projects was assigned to Herman.

The Jackson Project was completed in 1937. Each of the 84 homesteads had a brick veneer farmhouse; half also had a garage/barn combination. Each had five or ten acres of land, and the family also received a pig, a cow, and 35 chickens. The idea was that the family would be able to raise its own food and use the profits from selling any surplus to work off its debt to the government. The units were sold to homesteaders on very liberal terms. The average price for the home and property was \$2,687.40 plus interest. Plumbing and electrical wiring were required. The project marked the start of a transition from rural to suburban for the Town of Herman.

Twenty years later, it was time for a third wave to come to the township. They were the suburbanites of the 1950's, who came from Duluth to the rural township with its low taxes, country living space, and good school district.

The Air Force became a factor beginning in 1953. In 1957, the construction of a 105 family housing unit on base brought 120 new students to the school district. By 1959, the original brick schoolhouse had been added to five times, and a brand new elementary school built.

The Town of Herman was profoundly influenced by a more local form of government in 1974. A few days after the 4th of July, the neighboring city of Duluth announced its intention to annex two-thirds of the township in order to keep its population over the 100,000 mark and retain first class city status.

Herman, which had already applied to be designated a city, was outraged. Thousands of citizens turned out for public hearings on the matter. They posted signs, organized committees, sent telegrams and planned strategies.

The fate of Herman, whether it would be split in two, keep its grass roots democracy township organization, or become a city, was in the hands of the Minnesota Municipal Commission. The town board told the commission that its 7,000 citizens needed more services that it could provide with the limited taxing power of a township. Some of the citizens wanted to remain a township and have a direct vote at annual town meetings. Duluth claimed that Herman was actually an outgrowth of Duluth anyway, and would benefit by becoming part of the larger municipality. As a township, Herman could be annexed at any time by the city of Duluth, whether the township residents agreed or not. As a city, that would not be possible. On February 11, 1975, the Municipal Commission declared that the Town of Herman could become the City of Hermantown on December 31 of that year.

The Organization

Elected and Appointed Officials

POSITION	NAME	TERM EXPIRES
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ELECTED OFFICIALS

Mayor	Wayne Boucher	December 31, 2016
Council Member	John Geissler	December 31, 2016
Council Member	Darlene Koski	December 31, 2016
Council Member	Gloria Nelson	December 31, 2018
Council Member	Natalie Peterson	December 31, 2018

APPOINTED OFFICIALS

City Administrator	John Mulder	Continuous
Finance Director	Kevin Orme	Continuous
Community Development Director	Eric Johnson	Continuous
Building Official	Jim Rich	Continuous
Police Chief	Jim Crace	Continuous
City Superintendent	Paul Senst	Continuous
City Clerk	Debbie Lund	Continuous
Attorneys	Maki & Overom, Chartered	
Auditors	WIPFLI, LLP.	

Mission Statement

Organization Mission

Our mission is to provide excellent and quality services in partnership with our citizens in the highest degree of professionalism and teamwork supported by visionary leadership and planning with fiscal responsibility.

Value Statements

The following values are fundamental to the City of Hermantown and the fulfillment of our mission:

Excellence and Quality in the Delivery of Services

We believe that service to the public is our reason for being and strive to deliver quality services in a highly professional and cost-effective manner.

Fiscal Responsibility

We believe that fiscal responsibility and the prudent stewardship of public funds is essential for citizen confidence in government.

Ethics and Integrity

We believe that ethics and integrity are the foundation blocks of public trust and confidence and that all meaningful relationships are built on these values.

Treating Citizens as our Partners

We strive to treat all citizens with courtesy and as valued partners who deserve the best services we can provide.

Positive Relations with the Community

We believe that positive relations with the community and the public we serve leads to positive, involved, and active citizens.

Professionalism

We believe that continuous improvement is the mark of professionalism and are committed to applying this principle to the services we offer and to the development of our employees.

Visionary Leadership and Planning

We believe that the very essence of leadership is to be visionary and to plan for the future.

Cooperation and Teamwork

We believe that the public is best served when departments and employees work cooperatively as a team.

City Council Goals & Strategies

Since 2011, the City Council has met in the beginning of each odd numbered year, to create a list of priorities for the next two to four years (the remainder of their current terms). Individual Council members have an opportunity to communicate their goals. The goals are then grouped by category and a “priority statement” is developed for each category. The statement was intended to identify why the items in that category are important to the City Council. The Council members rank their top six priorities, but all items are included in the list.

Staff presents the issues at periodic quarterly meetings for the more complicated issues, and at regular Council meetings for items that are narrower in scope. Results and status updates are provided on a periodic basis, including as part of the budget book.

On January 9, 2015, the City Council met to discuss what items they would like to see accomplished over the next 2 to 4 years.

Fire: Plan for and develop a long term sustainable Fire Department	
Topic	Plan of Action/ Status
Fire Department Relations	<p>In June 2015, the City Council received the report from Springsted, Inc. of the Fire Department. The report included 12 recommendations.</p> <p>The City approved a structural review of Fire Halls 2 and 3 to determine long term strategy.</p> <p>During 2016, a working group from the Fire Department and the City met on several occasions in attempt to address the major findings of the report.</p>

Finance: Maximize proper use of Sales Tax revenue and stabilize the debt service budget	
Topic	Plan of Action/ Status
Sales tax – uses, expanded uses	<p>In March 2015, the Council reviewed the status of the sales tax revenues and long term obligations. While sales tax revenues have a limited and specific use, the conclusion of the review was that current revenues will exceed the current obligations. The recommendations included that the City should consider engaging in some longer range planning for utilities improvements and/or look at expanding the use of the sales taxes to meet other long term needs of the City.</p> <p>In February 2016, the City Council submitted a proposed revision to the state statute that would allow the use of sales tax to construct and equip the proposed regional wellness center. The language was included in the 2016 tax bill but was vetoed by the Governor. The bill would have required local voter approval, so a referendum question was approved by the City Council and then placed on the</p>

	<p>November ballot. The voters overwhelmingly approved the expanded use by 76% of the votes cast. The City will continue its legislative effort to have the tax bill passed and signed by the Governor.</p>
Debt Service	<p>In 2015, the City Council began a separate review of the Debt Service Budgets as part of the overall budget process. In 2016, the City engaged Ehlers and Associates, the City’s municipal advisor to conduct a debt study as part of a re-financing plan for two of the City’s outstanding bond series. The conclusion of the Debt Study was the expected future revenues should be adequate to fund the City’s outstanding debt.</p> <p>During 2016, the City refinanced two of the City’s current bonds (2006A Fund 315 \$3,390,00 & 2009A Fund 318 \$5,540,000). The re-financing reduced the amount of interest paid over the term of the bonds by over \$1.3 million.</p>

<p>Economic Development: Facilitate and promote continued community growth in a fiscally responsible and sustainable way</p>	
Topic	Plan of Action/ Status
Continued Marketplace Development	<p>In 2016, two significant projects were completed in the area the City calls the Hermantown Marketplace (the Fleet Farm store and the Holiday Inn & Suites Hotel). Both of these projects included improvements to the public infrastructure (streets, water, & sewer) as part of the overall development.</p> <p>In July, a third project – St. Luke’s Clinic, broke ground with intention of opening by the end of 2016.</p>
Economic Development	<p>In 2016 the Hermantown Economic Development Authority began a strategic planning process facilitated by Randy Lasky of Northspan. That process included a review of the existing by-laws, and development of a new mission statement and organizational values. The process will continue in order to identify strategic priorities in the future.</p>
Industrial Park Improvements	<p>As part of the reconstruction of Stebner Road, the City extended Lightning Drive and related utilities to connect to Getchell Road. This made Lightning Drive a through street as opposed to a having only one exit onto Stebner Road. Also part of that project, a thin layer of asphalt was applied to Lightning Drive to improve the driving surface.</p>
Adolph Development	<p>During 2015, the City Council Adopted an amendment to the Comprehensive Plan. This concluded the work of the small area plan of the Adolph area, but no significant changes are anticipated based on that report. One of the recommendations from this report was to request St. Louis County install traffic warning devices when traffic is backed up due to the railroad crossing in the area. Those warning devices were installed in the fall of 2016.</p>

Human Resources: Anticipate and plan for staff changes due to the change in the workloads and demand for service, and for pending retirements or possible staff turnover

Topic	Plan of Action/ Status
Staffing levels – number and types of positions	In June 2015, the City Council reviewed a staffing report that looked at the number and classifications of the positions in the City. The report included organizational charts of the three main areas, Administration/City Hall, Public Works, and the Police Department. The report showed the cost allocation to various funds for each position and the total costs of employees. Personnel Services make up over 60% of the total expenditures in the general fund. Finally, the report reviewed some demographics regarding age and years of service of the city’s work force and some possible staffing changes in the coming years. It has been a deliberate strategy for the City to review each position as they became vacant due to turnover to see if the position needs to be filled or changed.
Succession planning	See above

Parks: Improve recreational and wellness opportunities for city residents

Topic	Plan of Action/ Status
Munger Trail Connection	<p data-bbox="581 915 1464 1125">During 2015, the City worked cooperatively with the City of Proctor on route selection and preliminary engineering for a trail system that would connect the City of Hermantown and the City of Proctor to the Munger Trail and the Cross City Trail in Duluth. The work was completed using a state grant and the preliminary plan was approved by the City Council in October.</p> <p data-bbox="581 1167 1464 1314">In April 2016, the City submitted the plan to the Greater MN Council for Parks and Trails to be considered as a Master Plan. In July, the Greater MN Council for Parks and Trails gave the plan a “high” priority designation.</p> <p data-bbox="581 1356 1464 1461">In September 2016, the City submitted a grant application to the Greater MN Council for Parks and Trails for funding preliminary engineering and easement acquisitions.</p>
Community Center/Arrowhead Regional Health and Wellness Center/YMCA	<p data-bbox="581 1507 1464 1749">The Regional Wellness Center (now named the Essentia Health Regional Wellness Center) continued to work toward completion through legislative efforts during the 2016 Legislative session. After presenting a state bonding request to the Senate and House Capital Investment Committees in September 2015, the request was included in both the House and Senate Bonding bills, but the bill was unable to be passed by the Legislature in time.</p> <p data-bbox="581 1791 1464 1919">The City also took a step toward completing the financing of its portion of the project by requesting legislative approval to use sales tax to construct and equip the facility. The request was included in the State tax bill but the bill was vetoed by the Governor.</p>

	<p>The legislation would have required the City to hold a referendum in November 2016. The City Council approved the wording of the question for the ballot, and voters approved the usage of sales tax for the Wellnesses Center with 76% of the vote.</p> <p>The City will participate in Duluth St. Louis County Days in 2017 in attempt to gain the legislative approvals during the 2017 Legislative session.</p>
Community Wellness Initiative – Farmers Market	The City worked with community members to create a Farmers Market which ran on Monday afternoons from July through September.
Wi- Fi in City parks	No action was taken on this item
Traffic Issues around the school	A traffic study on the impact of the Regional Wellness Center was completed in 2015. However, no action was taken pending further action of the Regional Wellness Center and observing the impact of the changes in traffic patterns with the relocation of the Middle School to Hawk Circle Drive.

Capital Improvement Plan: Create a long term plan for improvements to City Streets and Buildings	
Topic	Plan of Action/ Status
Street Improvement Plan	<p>The City Engineer and Public Works Director inventoried and analyzed every city street. The streets were given a ranking relative to its current condition. The streets pose a significant challenge to the City. While the vast majority are relatively new and are in good condition, the costs of the roads with the greatest need do not have a firm identified funding source.</p> <p>The City did make some necessary improvements to the culverts on Ugstad Road, Reinke Road and upgraded Getchell and Lightning Drive.</p>
Capital improvement plan for buildings	In 2015, the City renewed its Capital Improvement Plan with an emphasis on some long range building needs.
Review use of the old police garage	No action was taken on this item

Utilities: Create plans to manage the long term needs of the City's utility infrastructure

Topic	Plan of Action/ Status
Utility Strategic plan	In the fall of 2016, the Utility Commission began a discussion about starting a Utility Strategic plan in 2017. The process will start using the City's GIS System to map the location of existing pipes, which parcels are serviced by utilities, which parcels have utilities available, and then areas or gaps in the system.
Water & Sewer replacement fund	The City has attempted to fund depreciation expenses in the Water and Sewer utilities and fund it with the current rates. Revenue covering the depreciation expenses is then added to the overall fund balance of the utility. However, no action was taken to create a separate fund at this item
Fire Hydrant Maintenance	This item was also one of the recommendations from the review of the Fire Department. With a transition in the Public Works Department, the physical inventory has not begun. No action was taken on this item
Stormwater Utility	In June of 2015, the City Council approved a Request For Proposals for the study of a future Stormwater utility. Short, Elliot, & Hendrickson, (SEH) Engineering firm was selected and began the process. In November 2015, the Council received a feasibility report and discussed the parameters of the utility and timing of moving forward. Additional work was done and in 2016, the City contracted with SEH to measure the impervious surfaces of non-residential lots. Work will continue in 2017.

Code Enforcement: Enforce the Zoning Code to reduce amount of non-conforming uses and blight in the Community

Topic	Plan of Action/ Status
Ugstad/Hermantown Road properties - zoning enforcement	<p>The City took steps work with several individual property owners to encourage them to remove blight and eliminate nuisances.</p> <p>The City Council approved changes to Chapter 770 related to nuisance complaints and chapter 1030 related to hazardous structures, and revised procedures to deal with these issues. The procedures were revised in order to provide better communication with land owners and develop tools to deal with complaints on a more consistent basis.</p>

Communication: Improve Communication and identification of the City

Topic	Plan of Action/ Status
Communication plan	During 2016, the City Council reviewed an outline of a communications plan. The outline included the following items: Overview, Emergency communications, Legally required communications, General communications, and "Telling our story." The purpose of the communications plan was to explain how the City will communicate in various circumstances. Based on that

	plan, the City created the following items: An internal communications tree for emergencies, a system for distributing paperless agendas and posting the agenda packets on the City website, and a Facebook page.
Community branding/logo – on Street signs around the community	In 2015, the Council began the design of signs for the Hermantown Marketplace. That process continued into 2016. The City focused on obtaining all of the necessary permissions and identifying the final locations in 2016, but construction has been delayed until 2017. The City did not take specific action in reviewing its brand or logo.
Work on changing zip code	No action was taken on this item
Website	The City renewed its efforts to post timely information on the City’s website and has budgeted funds to upgrade the site in 2017.
Paperless agendas	In July 2016, the City began posting the entire City Council agenda packet on the city’s website.
New Hermantown sign at Hwy 53 & Haines	The City continued the process of design and location of the proposed Hermantown Marketplace signs. Actual construction has been delayed until 2017.
Updated city maps on website	New zoning maps were added to the website, and the City continues to review how to add more mapping information.

Major Accomplishments – 2016

In addition to the work and accomplishments related to the City Council priorities, the following accomplishments were completed in the 2016.

General Government

1. Conducted the general election of 2016, with two City Council members spots on the ballot, a referendum question regarding sales tax, and other state and national elections with a voter turnout of 90 %
2. Referendum question passed with 76% voter approval.
3. Approved change in banking relationship to the National Bank of Commerce.
4. Entered into three year agreements for 2016-2018 with the three labor unions representing the City employees.
5. Was a sponsor of the Duluth Airshow and provided traffic control for the event.

Community Development

1. Hired Eric Johnson as the new Community Development Director after the resignation of Adam Fulton in late 2015.
2. Hired Nels Anderson as the first Geographic Information Systems technician for the city.
3. Approved over 40 changes to the Zoning map that were intended to “clean up” the zoning map of various parcels that were not zoned correctly based on the current land use, location, and intentions of the land owners.
4. Approved Preliminary Plat and a development agreement for Jackson Estates, 4th Addition creating nearly 30 new single family lots.
5. Amended the Zoning Code to improve communication with the general public with proposed projects in specific locations by requiring posting a sign in the area of proposed land use changes.
6. Approved Preliminary Plat and a development agreement for with Titan Development at the corner of Ugstad and Arrowhead providing nine additional single family lots.
7. Approved a revised subdivision ordinance.

Public Safety

1. Purchased an Automatic License Plate Reader for one of the HPD squads. This piece of equipment makes patrolling more effective and safer for the officer.
2. Built a shared storage shed at the shared HPD/St. Louis County range at NERCC.
3. Reorganized the Detective office with new office furniture to accommodate 2 employees making the office space more ergonomic and efficient.
4. Added a second K-9 to the force through grants and donations. This move allows us to have a K-9 team scheduled daily.
5. Hired an experienced officer to fill a vacancy which was caused by an officer who is unable to return to work for medical reasons following a use of force incident.

Public Works

1. Hired Paul Sens as the new Public Works Director following the retirement of Dean Sharpe as the Public Works Superintendent after 32 years of service to the City.
2. Purchased of Dump truck, utility truck and service pick-up truck.
3. Replaced a culvert on Ugstad Road as one of the City's capital improvement projects.
4. Replaced of a culvert on Reinke Road after damage created by heavy rains. This project had been planned in 2017 as part of the Capital improvement plan, but was moved up following the washout of part of the road.
5. Replaced roadway cross culverts on Park Rd., Lindgren Rd, Rose Rd., Old Hwy 2 (2), Getchell Rd. (2), Jamebard Rd. and Mary Lane.
6. Repaired/Rebuilt/Upgraded Getchell Rd. from Maple Grove to Lightning Drive.
7. Cleaned up the PW facility on Lightning Dr. and got rid of scrap metal and misc. junk.
8. Installed 11 ROW driveway culverts. Resident pays for the culvert and we installed.

Parks

1. Commenced on a Parks and Trail Master Plan document with anticipated finalization in Spring 2017.
2. Conducted a spring and fall parks tour which led to the maintenance and upkeep of the city's parks as well as strengthened relationships with the park user groups.
3. Repaired portions of fences at Fichtner park.
4. Added summer mowing help to reduce amount of weeds/ unsightly grasses at parks.
5. Leveled up bleacher sections at Fichtner Park.
6. Added boulders to Stebner Park entryway for added protection and aesthetics.

Utilities

Sanitary

1. Replaced/Upgraded pump at Arrowhead #1 Lift station All piping is done for other new pump that will hopefully be completed in 2017.
2. Had both water towers in the City washed & treated on the exterior.
3. Cleaned approximately 24,000 lf of sanitary sewer.
4. Took care of 3 manholes that had I&I problems behind Jersey City, Credit union area and water proofed these to eliminate the I&I infiltration.
5. Thoroughly investigated a Fats, Oil & Greases problem and identified a violation of dumping petroleum products down sanitary sewer.

Water

1. Replaced or repaired all hydrants (8) along Stebner road during reconstruction of Stebner Road.
2. Repaired another 7 hydrants that had been neglected .
3. Repaired Manhole on Lightning Dr. that had been lifted by frost.

Mayor
Wayne Boucher

Administrator
John Mulder

Councilors
Gloria Nelson
Darlene Koski
Natalie Peterson
John Geissler



5105 Maple Grove Road Hermantown, Minnesota 55811
Phone: 218-729-3600 / Fax: 218-729-3620
Website: www.hermantownmn.com

Budget Message

2017 Budget
November 15, 2016

Attached is the 2017 City of Hermantown Budget.

The adoption of the annual budget is one of the most important actions taken by the City Council each year. The budget reflects the ongoing operations and planning for the future by the City Council and staff.

Council Priorities: The 2017 Budget attempts to plan for the next twelve months in the context of the mission statement and City Council Goals and Strategies discussed earlier on pages 14-19.

These goals were grouped into nine different categories; each with a priority statement. These statements have been the basis for action and direction for the organization and were a guiding principle in formulating the 2017 budget. Several of these priorities have a direct impact on the proposed 2017 General Fund Budget. Those impacts are discussed below along with the changes in expenditures.

The goal of the 2017 Budget was to enhance excellence and quality in the delivery of services balanced with the fiscal responsibility to the citizens of Hermantown while advancing the goals of the City Council.

Revenues: The General Fund budget relies heavily on local property tax to fund the expenses. Local property taxes make up 87.2% of the total revenue in the General Fund.

Taxes: The amount of levy under this preliminary general fund budget is projected to increase 13.8% or \$542,658. For 2017, exclusive of the Fleet Farm and Holiday Inn developments, the Net Tax Capacity only grew by 3.46%. With expenditures growing by more than this, it causes an increase in the tax rate, so that an individual homeowner will pay more for the same value of home. The rate increases from .3563 to .39477

Licenses & Permits: Building permit fees are expected to be slightly lower in 2017. We had several big projects in 2015 and 2016, but do not know if that level will continue in 2017. We are aware of several projects and there are other ones potentially on the horizon, but we reduced the fees slightly.

Intergovernmental: The second largest category of General Fund revenue is Intergovernmental which includes Local Government Aid. The statutory formula again reduces Local Government Aid (LGA) to the City and transfers that burden to the property tax base. Local Government Aid is reduced by \$97,260 for 2017. This is the equivalent of a 2% tax increase. The City will only receive \$66,001 in LGA in 2017.

Expenditures: At this time, expenditures in the 2017 General Fund Budget are increasing 8.0% or \$379,789. This increase is due to the following factors: personnel expenditures that reflect the negotiated wage increases for all employees, an approximate 10% increase in the health insurance premiums, a large increase (\$102,000) in Fire Department Budget, and increases in street and equipment maintenance in the Street Department.

Fire: Plan for and develop a long term sustainable Fire Department. The Fire Department is requesting an additional \$102,000 for operations. This increase represents approximately a 2% increase in the property tax. This is a 22% increase in the overall Fire Department budget. The rationale for their increase is to fund 2 duty crew positions at Fire Hall 1 during the day shift and to put additional money toward their long range equipment plan.

Human Resources: Anticipate and plan for staff changes due to the change in the workloads and demand for service, and for pending retirements or possible staff turnover. Personnel expenses have increased by 10.85% or \$330,915 in the General Fund. This includes the negotiated wage increase with all three unions and 10% increase in health insurance. There are no new additional positions planned in the 2017 Budget. Health Insurance premiums are increasing approximately 10%.

Capital Improvement Plan: Create a long term plan for improvements to City Streets and Buildings. There are a couple of significant cost items in the general fund related to city streets and buildings. The Street Department budget includes an additional \$40,000 for street improvements and \$27,850 for equipment repairs in order to extend the life of several vehicles. The City Garage includes \$22,900 to upgrade air handling equipment and door seals on the large overhead garage doors.

Communication: Improve Communication and identification of the City.

Included in the Administration budget is an additional \$5,000 to update the City’s web page in 2017 using the city’s current provider of Gov Office.

The table below shows the final budget and increase for both the general fund and overall budget.

Expenditures	2016 Budget	2017 Budget	% Change
General Fund Budget	4,720,500	5,100,289	8.04%
Total City Budget (All Funds)	11,628,880	12,452,538	7.08%

Acknowledgements:

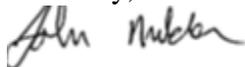
The City received the Distinguished Budget Presentation Award to the City for its annual budget for the fiscal year beginning January 1, 2016 for the sixth consecutive year.

It is important to thank Liz Middlemist and Kevin Orme. In 2015 we made changes to the budget process in order to improve budget submissions by the department and review by Administration and Finance. A schedule was created with certain task to be completed by certain dates. The revised schedule and forms have helped us stay on tasks and on schedule. Ms. Middlemist and Mr. Orme have organized the information and done all of the necessary behind the scenes work to keep the budget on schedule even as we have had made adjustment to the budget process. The hard work of budgets is in the details, and Ms. Middlemist took care of much of the details. I truly appreciate the team work with the Finance Department during this process. The Department Heads and the employees of City Hall have also been very helpful throughout this process.

Ultimately it is the combination of the vision and leadership by the Mayor and City Council along with the work ethic and stewardship of the employees that can serve the community.

This budget message has summarized the changes in the City’s budget from 2016 to 2017, but more importantly, it has attempted to give a sense of the direction and priorities the Council has set for the organization as we serve the community. Because in the end, the budget is the means to communicate and plan for accomplishing those priorities.

Sincerely,



John Mulder
City Administrator
November 15, 2016

Distinguished Budget Presentation Award



The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the **City of Hermantown, Minnesota** for its annual budget for the fiscal year beginning **January 1, 2016**. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device. This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and we are submitting it to GFOA to determine its eligibility for another award.

2017 Financial Summary Information

	<u>2015 Actual</u>		<u>2016 Original Budget</u>		<u>2017 Budget</u>	
	Revenues	Expenditures	Revenues	Expenditures	Revenues	Expenditures
General Fund	\$4,805,742	\$4,749,104	\$4,720,500	\$4,720,500	\$5,100,289	\$5,100,289
Special Revenue Fund	\$3,060,584	\$1,702,498	\$2,763,076	\$1,572,042	\$3,000,855	\$1,673,746
Debt Service Funds	\$2,583,670	\$3,406,962	\$2,309,542	\$2,499,554	\$2,237,846	\$2,233,794
Capital Project Funds	\$712,146	\$637,261			\$280,000	\$280,000
Enterprise Funds	\$3,032,192	\$2,739,550	\$2,907,888	\$2,836,784	\$3,043,638	\$3,164,709
Total	\$14,194,334	\$13,235,375	\$12,701,006	\$11,628,880	\$13,662,628	\$12,452,538

Balanced Budget

Per the City Operating Budget Policy, appropriations shall not exceed the total of the estimated revenues and available fund balance. The City of Hermantown's 2017 budget is a balanced budget.

General Fund:

2017 budgeted revenues are \$379,789 higher than 2016 budgeted revenues, while 2017 budgeted expenditures are \$379,789 higher than the 2016 budgeted expenditures.

Special Revenue Funds:

2017 budgeted revenues are \$237,779 higher than 2016 budgeted revenues. This increase is mainly due to increased sales tax revenue.

Debt Service Funds:

Debt Service Funds are budgeting revenues of \$2,237,846 and expenditures of \$2,233,794 in 2017. This is \$71,696 less in revenue and \$265,760 less in expenditures than budgeted in 2016. In 2016 the City's municipal advisor, Ehlers & Associates, Inc, performed a debt study. It concluded the City currently has enough revenue's in future years to meet debt obligations. During 2016 two of the City's bonds were redone as a current refunding and an advance refunding.

Enterprise Funds:

2017 budgeted revenues are \$135,750 more than 2016 budgeted revenues. This increase is primarily due to rate increases. The water rate will increase to \$8.48 per 1,000 gallons and the sewer rate will increase to \$9.42 per 1,000 gallons. 2017 budgeted expenditures are \$327,925 higher than 2016 budgeted expenditures. This increase is primarily due to transfers out for equipment purchases.

Financial Structure, Policy, and Process

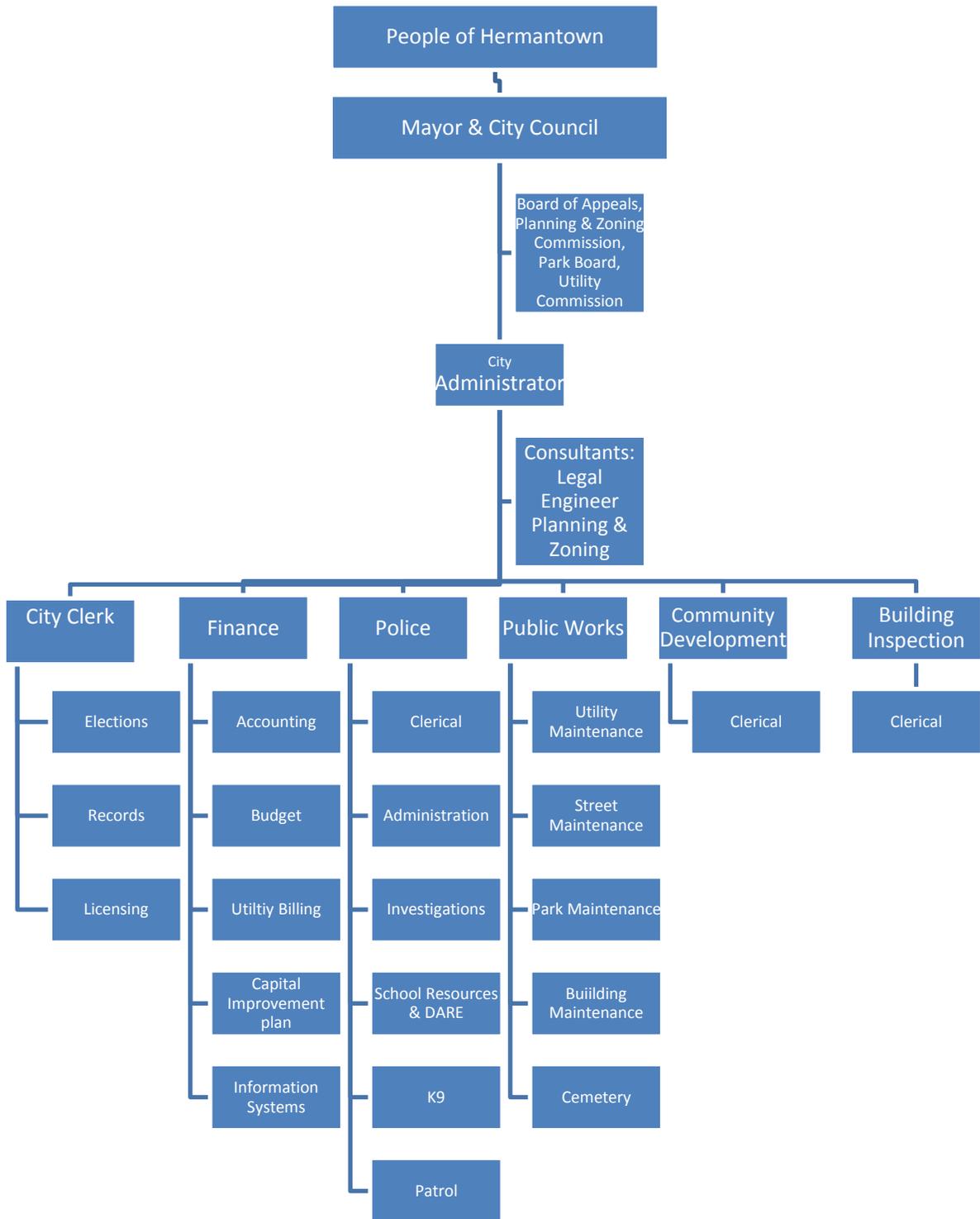
Organization Structure and Chart

The City of Hermantown was incorporated on December 31, 1975. The City is a Plan A form of government. A five-member council consists of a mayor and four councilors. Councilors serve four-year terms; the mayor is elected to a four-year term. City elections are held in even years. The council may appoint independent boards and commissions, such as a utilities commission, and advisory bodies, such as a planning commission. The council appoints all personnel, including the attorney, building official, and planning & zoning director. The council has all the administrative and legislative authority for governance of the city.

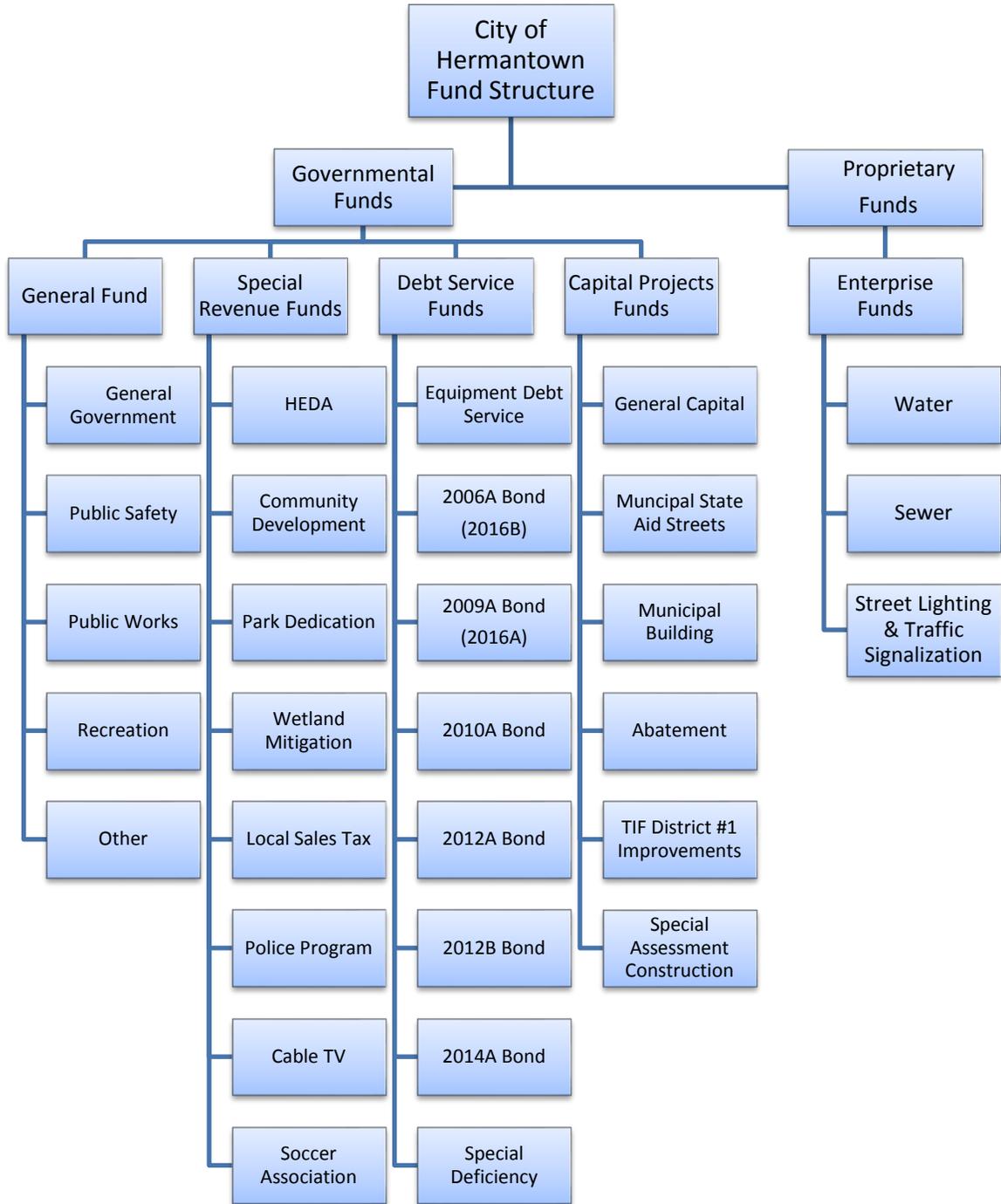
The City Administrator controls and directs the administration of the City's affairs and supervises all departments and divisions. Activities are managed through five departments (Police, Finance, Community Development, Building Inspection and Public Works), each with a supervisor appointed by and reporting to the City Administrator. In addition, there are several employees who report to the City Administrator including the city clerk and general administration.

A description of the departments and their functions is included in this document.

CITY OF HERMANTOWN, MINNESOTA ORGANIZATIONAL CHART



City of Hermantown Fund Structure



Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures as appropriate.

Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, for budgeting purposes, into two broad fund categories: Governmental Funds and Proprietary Funds.

Governmental Funds include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Project Funds.

Fund	Description	Major Budgeted	Non Major Budgeted
<i>General Fund</i>	The general fund is the primary revenue source and operating fund for most services cities typically offer. These include public safety (police, fire and building inspection), street maintenance and parks. In addition, the City Council, Administration, Finance, Community Development, City Attorney, City Engineer, Planning & Zoning are predominately funded by the General Fund. It is used to account for all financial resources except those reported in another fund.	X	

Special Revenue Funds

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Fund	Description	Major Budgeted	Non Major Budgeted
<i>City Sales Tax Fund</i>	Accounts for the local sales tax collected that is authorized by the Minnesota State Legislature to fund; extending a sewer interceptor line, construction of a booster pump station, reservoirs, and related improvements to the water system, and construction of a building containing a police and fire station and an administrative services facility.	X	
<i>Hermantown Economic Development Authority</i>	Created to preserve and create jobs, enhance tax base, and promote the general welfare of the people of the City. (Board comprised of entire City Council, Mayor, City Administrator and two community representatives).		X
<i>Community Development Fund</i>	Accounts for revenues and expenditures in connection with infrastructure improvements of general benefit to the community of Hermantown.		X
<i>Park Dedication Fund</i>	Accounts for the collection of revenues dedicated to the acquisition and capital improvement of City parks.		X
<i>Wetland Mitigation Fund</i>	Accounts for the collection of revenues from landowners who disturb wetlands in connection with the development of a parcel of land.		X
<i>Police Program</i>	Accounts for revenue and expenditures for special police programs.		X
<i>Cable Television</i>	Accounts for the revenues and expenditures associated with administering a franchise agreement to provide cable television to Hermantown residents.		X
<i>Soccer Association</i>	Accounts for the revenue from the Soccer Association for the development of the Hermantown Stebner Soccer Park		X

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Fund	Description	Major Budgeted	Non Major Budgeted
<i>Fund 301 Equipment Debt Service</i>	Accounts for the accumulated resources to pay the interest and principal payments on the Certificate of Indebtedness on the purchase of Public Work's equipment.		X
<i>Fund 315 2006A (Will be 2016B) Public Project Bonds</i>	Accounts for the accumulated resources to pay the interest and principal payments on the 2006A Bonds.		X
<i>Fund 318 2009A (Will be 2016A) General Obligation Bond – PW Salt Storage & Refinance 2003 Bonds</i>	Accounts for the accumulated resources to pay the interest and principal payments on the 2009A GO & Refunding Bond.		X
<i>Fund 319 2010A General Obligation Bond</i>	Accounts for the accumulated resources to pay the interest and principal payments on the 2010A GO Bond.		X
<i>Fund 320 2012A General Obligation Bond</i>	Accounts for the accumulated resources to pay the interest and principal payments on the 2012A GO Bond.		X
<i>Fund 321 2012B General Obligation Bond</i>	Accounts for the accumulated resources to pay the interest and principal payments on the 2012B GO Bond.		X
<i>Fund 322 2014A General Obligation Bond</i>	Accounts for the accumulated resources to pay the interest and principal payments on the 2014 GO Bond.		X
<i>Special Assessment Deficiency Fund</i>	Accounts for the accumulated resources to ensure debt service payments of bonds in cases where special assessments have been deferred or collections are not sufficient.		X

Capital Projects Funds

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. The City does not budget for all Capital Projects Funds; however, the City does budget separately for General Capital Projects (Fund 401) in our Capital Improvement Plan document. A summary of Projects and Fund sources can be found on pages 87-89.

Proprietary Funds – In addition to the Governmental Funds, the City maintains three separate enterprise funds. These enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fund	Description	Major Budgeted	Non Major Budgeted
<i>Water Enterprise Fund</i>	The City provides water service to its citizens and commercial entities. This fund accounts for the activity of providing water services to the public.	X	
<i>Sewer Enterprise Fund</i>	The City’s sewers protect public health and preserve water wastewater solids. The City is connected to Western Lakes Sanitary Sewer District’s sewer system. This fund provides sewer disposal services to the public.	X	
<i>Street Lighting & Traffic Signalization Fund</i>	The City maintains the street lighting and traffic signals owned by the City. This fund accounts for the activity of lighting and signalizing public streets.		X

Expenditure Object Classifications

Personal Services

This object of expenditure includes expenses for salaries, wages, and related employee benefits provided for all persons employed by the city. Employee benefits include employer contributions to social security, medicare, PERA, health, life, disability insurance, health care savings plan and worker's compensation.

Supplies

This object of expenditure includes articles and commodities that are consumed or materially altered when used, such as office supplies, operating supplies, repair and maintenance supplies, and small tools and minor equipment.

Other Services & Charges

This object of expenditure includes expenses for services other than personal services. Examples of such charges include professional services, communication, training, insurance, utility services, repair and maintenance, rentals and depreciation.

Capital Outlay

This object of expenditures includes outlays that result in the acquisition of or additions to capital assets.

Debt Service

This object of expenditure includes interest, principal payments and related charges of the city's bond payments and certificate of indebtedness.

Other Financing Uses

This object of expenditure includes transfers to other funds.

Operating Fund Crosswalk

This matrix shows the relationship between functional units and funds. For example, the Public Safety function has some authorized operations in the General Fund and in the Police Fund.

Operating Fund	Administration of Fund							
	General Government	Public Safety	Streets & Highways	Cemetery	Parks	Cable TV	Economic Development	Utilities
General Fund	x	x	x	x	x			
Special Revenue Funds								
HEDA							x	
Community Development							x	
Park Dedication					x			
Wetland Mitigation	x							
Sales Tax							x	
Police Program		x						
Cable TV						x		
Soccer Association					x			
Enterprise Funds								
Water								x
Sewer								x
Street Lighting & Traffic Signalization								x

Basis of Accounting and Basis of Budgeting

The basis of budgeting is identical to the basis of accounting used in the audited financial statements for all funds. The principles set forth as the Basis of Accounting are strictly observed in the budgeting process. All budgets are adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP). There are no budgets adopted for Capital Projects Funds. Governmental funds are budgeted for and accounted for using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Major revenues that are susceptible to accrual include property taxes (excluding delinquent taxes received over 60 days after year-end), special assessments, intergovernmental revenues, charges for services, and interest on investments. Property tax and special assessment revenue is recognized when it becomes measurable and available to finance expenditures of the current period. State revenue is recognized in the year in which it applies according to Minnesota Statutes. Special assessment revenue is recognized in the year it is received. Other revenues are considered measurable and available only when cash is received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for principal and interest on general long-term debt, which is recognized when due.

Proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded at the time liabilities are incurred.

Financial Management Policies

The main policies most significant to the development of the budget are: Revenue Management; Operating Budget; Capital Improvements Plan; Debt Management; and Accounting, Auditing and Financial Reporting.

The Revenue Management policy is designed to ensure diversified and stable revenue sources, and adequate long-term funding by using specific revenue sources to fund related programs and services. The Operating Budget policy is the annual financial plan for funding the costs of City services and programs. The Capital Improvements Plan policy states that the Capital Improvements Plan should be reviewed annually by the City Council to decide on the following: project prioritization, funding source acceptability, acceptable financial impact, and whether the issuing of certificates of indebtedness are appropriate to meet capital needs. The Debt Management policy states that during the budget process the Council may review whether a debt study is necessary to be prepared in conjunction with the Capital Improvements Plan to provide information about the City’s debt structure. The Accounting, Auditing and Financial Reporting policy states that the budget will be prepared in a manner to maximize its understanding by residents and elected officials. The budget will be available on the City’s website www.hermantownmn.com.

City of Hermantown FINANCIAL MANAGEMENT PLAN

This Financial Management Plan serves two main purposes: it draws together in a single document the City's major financial policy. Also, the plan establishes principles to guide both staff and City Council to make consistent and informed financial decisions.

Financial Management Policies Adoption

The Financial Management Policies were adopted by resolution #2010-72 on July 19, 2010 by the City Council. The policies shall be reviewed by the Finance and Accounting staff on an ongoing basis and any modifications made thereto must be approved by the City Council.

The City of Hermantown strives to ensure that it is capable of adequately funding and providing local government services needed by the City's residents. The City will maintain or improve its infrastructure on a systematic basis to ensure the quality living in Hermantown. This responsibility includes the providing and maintaining of public facilities, managing municipal finances wisely and carefully accounting for public funds.

This Financial Plan establishes City policy in the following areas:

1. Revenue Management
2. Cash and Investments
3. Reserves
4. Operating Budget
5. Capital Improvements Plan
6. Economic Development Authority Fund
7. Debt Management
8. Accounting, Auditing and Financial Reporting
9. Risk Management
10. Fund Balance

The objectives of this Financial Plan are:

- To provide both short term and long term future financial stability by ensuring adequate funding for providing services needed by the community;
- To protect the City Council's policy-making ability by ensuring that important policy decisions are not dictated by financial problems or emergencies to prevent financial difficulties in the future;
- To provide sound principles to guide the decisions of the City Council and staff;
- To employ revenue policies which prevent undue or unbalanced reliance on certain revenues, distribute the cost of municipal services fairly, and provide adequate funding to operate desired programs;
- To provide essential public facilities and prevent deterioration of the City's public facilities and infrastructure;
- To protect and enhance the City's credit rating and prevent default on any municipal debt;

- To create a document that staff and Councilor's can refer to during financial planning, budget preparation and other financial management issues;
- To ensure the legal use and protection of all City funds through a good system of financial and accounting controls;
- To assist sound management of the City government by providing accurate and timely information on financial condition.

1. REVENUE MANAGEMENT.

It is essential to responsibly manage the City's revenue sources to provide maximum service value to the community. The City will maintain a diversified and stable revenue system in order to avoid short – term fluctuations in a single revenue source. The City will conservatively estimate its annual revenues. All existing and potential revenue sources will be examined annually.

The most important revenue policy guidelines established by the City Council are for the two major sources of city revenue: property taxes and service fees/charges.

A. Property Taxes

When possible, property tax increases should accommodate incremental adjustments. Further, when discussing property taxes, the City should simultaneously explore other revenue and expenditure alternatives that will maximize the City's future financial flexibility and ability to provide services. This may include considering options such as debt management, fees and charges, cost allocation, use of reserves, and expenditure cuts.

Possible factors for considering an increase in property tax include:

- Maintenance of City services.
- Long-term protection of the City's infrastructure.
- Meeting legal mandates imposed by outside agencies.
- Maintaining adequate fund balance and reserve funds sufficient to maintain or improve the City's bond rating.

Property tax increases to meet other purposes will be based on the following criteria:

- A clear expression of community need.
- The existence of community partnerships willing to share resources.

B. Service Fees and Charges

The City may want to consider service fees and charges wherever appropriate for the twin purposes of keeping the property tax rate at a minimum and to fairly allocate the full cost of services to the users of those services. As an example of appropriate cost allocation, service fees and charges broaden the base to include tax exempt properties, which still have municipal costs associated with the property. Specifically, the City may:

- Establish utility rates sufficient to fund both the operating costs and the long-term depreciation and replacement of the utility systems.

- As part of the City’s enterprise effort, evaluate City services and aggressively pursue actions to accomplish the following:
- Find community based partners to share in service delivery.
- Make services financially self-supporting or, when possible, profitable.
- Annually review City services and identify those for which charging user fees are appropriate. Initial review will be to determine whether the fees cover the cost of the service. Also included as part of this process may be a market analysis that compares our fees to comparable market cities.
- Identify some enterprise services as entrepreneurial in nature. The intent of entrepreneurial services will be to maximize revenues to the extent the market and the law allows.
- Review the full cost of activities supported by fees and charges to identify the impact of inflation and other cost increases.

C. Non-recurring Revenues

Several revenue sources, such as intergovernmental transfers, one-time grants, court fines and other non-recurring revenues are outside of direct City control and must be relied upon conservatively. The City Administrator shall ensure that the budget preparation process includes an evaluation of all major non-recurring revenues, in order to minimize reliance on unpredictable revenues for on-going operating costs.

2. CASH AND INVESTMENTS.

Effective cash management is essential to good fiscal management. Investment returns on funds not immediately required can provide a significant source of revenue for the City. Investment policies must be well founded and uncompromisingly applied in their legal and administrative aspects in order to protect the City funds being invested.

I. Investment Policy

It is the policy of the City of Hermantown (City) to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow requirements of the City and in conformance to all state and local statutes governing the investment of public funds.

The purpose of this Policy is to:

- a. develop an overall program for cash investments, designed and managed with a high degree of professionalism, worthy of the public trust;
- b. establish that elected and appointed officials and employees are custodians of a portfolio which shall be subject to public review;
- c. establish cash investment objectives, delegation of authority, standards of prudence, internal controls, authorized investments, selection process for investments, and broker representations.

II. Scope

This Policy applies to the investment and deposit of all funds of the City.

A. Pooling of Funds

Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

III. Objective

At all times, investments of the City shall be in accordance with Minnesota Statutes Chapter 118A and amendments thereto. The primary objectives of the City's investment activities shall be in the following order of priority:

A. Safety

Safety of principal is the foremost objective of the investment portfolio. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk, interest rate risk, and custodial risk.

Credit Risk: Credit Risk is the risk of loss due to failure of the security issuer or backer. Thus, designated depositories shall have insurance through the FDIC (Federal Insurance) or the SIPC (Securities Investor Protection Corporation). To ensure safety, it is the policy of the City that when considering an investment, all depositories under consideration be cross-checked against existing investments to make certain that funds in excess of insurance limits are not made in the same institution unless collateralized as outlined below. Furthermore, the City Council will approve all financial institutions, brokers, and advisers with which the City will do business.

Interest Rate Risk: Interest Rate Risk is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. The City will minimize Interest Rate Risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

Custodial Risk: The City will minimize deposit Custodial Risk, which is the risk of loss due to failure of the depository bank (or credit union), by obtaining collateral or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

B. Liquidity

The investment portfolio shall remain sufficiently liquid to meet projected disbursement requirements. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Generally, investments shall have “laddered” maturities so that money becomes available on a regular schedule. Liquid funds will allow the City to meet possible cash emergencies without being penalized on investments.

C. Yield

The investment portfolio shall be designed to manage the funds to maximize returns consistent with items A and B above and within the requirements set forth in this Policy. Subject to the requirements of the above objectives, it is the policy of the City to offer financial institutions and companies within the City the opportunity to bid on investments; however, the City will seek the best investment yields.

IV. Delegation of Authority

Responsibility for the investment program is hereby delegated by the City Council to the Finance Director. Authority to conduct actual investment transactions may be delegated to the Finance Director who shall act in accordance with procedures as established with this investment policy. The authorized individuals, when acting in accordance with this Policy and exercising due diligence, shall not be held responsible for losses, provided that the losses are reported immediately and that appropriate action is taken to control further losses.

V. Prudence

The standard of prudence to be used by investment officials shall be the “prudent investor”, and shall be applied in the context of managing the investments. All investment transactions shall be made in good faith with the degree of judgment and care, under the circumstances, that a person of prudence, discretion and intelligence would exercise in the management of their own affairs. This standard of prudence shall mean not for speculation, and with consideration of the probable safety of the capital as well as the probable investment return derived from assets.

VI. Internal Controls

Internal controls are designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. Before the City invests any surplus funds, competitive quotations shall be obtained. Written quotations from local financial institutions shall be obtained via fax, email, or other form of written documentation, with all of them receiving the exact same rate request. Verbal quotations shall be received from all other brokers, along with a subsequent confirmation. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, quotations will be requested for instruments that meet the maturity requirement. If

no specific maturity is required, a yield analysis will be conducted to determine which maturities would be most advantageous. Quotations will be requested from financial institutions for various options with regard to term and investment type. The City will accept the quotation, which provides the highest rate of return within the maturity required and within the limits of this Policy.

The Finance Director will report periodically to the City Council on the total of all funds invested and the total interest received on all securities year to date.

VII. Authorized Investments and Collateralization

All City investments and deposits shall be those allowable by Minnesota Statutes Chapter 118A and amendments thereto. In accordance with MN Statutes 118A, collateralization will be required on all demand deposit accounts, including checking, savings, and money market accounts, and non-negotiable certificates of deposit in excess of federal deposit insurance.

State law defines the types of securities that a financial institution may pledge as collateral for public deposits. These securities include:

- United States Treasury Issues
- Issues of US Government Agencies and Instrumentalities
- Obligations of State and Local Governments
- Time Deposits (Certificates of Deposits fully insured by the federal deposit insurance company or federal agency).

Since the amount a public entity has on deposit will vary from time to time, the financial institution needs sufficient amounts of pledged collateral to cover 110% of the uninsured amount on deposit during peak deposit times.

VIII. Diversification

The City will attempt to diversify its investments according to type and maturity. The portfolio, as much as possible, will contain both short-term and long-term investments. The City will attempt to match its investments with anticipated cash flow requirements. Extended maturities may be utilized to take advantage of higher yields.

IX. Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.

X. Broker Representations

Municipalities must obtain from their brokers certain representations regarding future investments. Pursuant to Minnesota Statutes 118A, the City shall provide each broker with the City's investment policy, and the securities broker shall submit a certification annually to the City stating that the officer has reviewed the investment policies and objectives, as well as applicable state law, and agrees to disclose potential conflicts of interest or risk to public funds that might arise out of business transactions between the firm and the City. All financial institutions shall agree to undertake reasonable efforts to preclude imprudent transactions involving the City's funds.

3. RESERVES.

It is important for the financial stability of the City to maintain reserve funds for unanticipated expenditures or unforeseen emergencies, as well as to provide adequate working capital for current operating needs so as to avoid short-term borrowing. The Reserve Policy of the City is managed closely with the City's Debt Management Policy. The City may choose to consider paying cash for capital projects that can be anticipated and planned for in advance. Therefore the City's reserve levels fluctuate, in part, based on capital project plans.

Policy Statement

1. At year-end the City's goal is to maintain an unreserved fund balance in the General and Special Revenue Funds of approximately 35 to 50 percent of the fund operating revenues or no less than five months of operating expenditures, which should provide the City with adequate funds until the next property tax revenue collection cycle (the level which will avoid issuing short-term debt to meet the cash flow needs of the current operating budget). This need could fluctuate with each year's budget objectives and appropriations such as large capital expenditures, and variations in the collection of revenues.
 - a. The City will strive to maintain a fund balance within the HEDA Fund, a Special Revenue Fund, in order to meet both anticipated and unanticipated future economic development needs. The City will annually evaluate the level of fund balance for its appropriateness. The Financial Management Plan includes a policy for the collection of revenue for the HEDA Fund.
2. The City will maintain reserves in the Enterprise and Capital Funds at a minimum level sufficient to provide adequate working capital for current expenditure needs. Generally the City shall strive for a minimum of 3-months operating cash in these funds. (This minimum shall be calculated based on the approved budget multiplied by 25-percent). The maximum amount of reserves in the Enterprise and Capital Funds shall be limited to the 3-months operating cash plus an amount of cash that is estimated to be needed to pay for future capital projects. Future capital projects must be identified and quantified in a

written finance plan for the fund which shall be included in the City's annual budget document.

3. The City will annually review the adequacy of all reserve balances.
4. Judicious use of reserves within funds can be used to moderate fluctuations in capital projects and infrastructure maintenance expenses (i.e., Capital Projects Fund).

4. OPERATING BUDGET.

The Operating Budget is the annual financial plan for funding the costs of City services and programs. The General Operating Budget includes the General, Special Revenue and Capital Funds. Enterprise operations are budgeted in separate Enterprise Funds.

1. The City Administrator shall submit a balanced budget in which appropriations shall not exceed the total of the estimated revenues and available fund balance.
2. The City will provide for all current expenditures with current revenues. The City will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' budgets.
3. The City Administrator will coordinate the development of the capital improvement budget with the development of the operating budget. Operating costs associated with new capital improvements will be projected and included in future operating budget forecasts.
4. The budget will provide for adequate maintenance of the capital plant and equipment, and for their orderly replacement.
5. The impact on the operating budget from any new programs or activities being proposed should be minimized by providing funding with newly created revenues whenever possible.
6. The City Administrator will insure that a budgetary control system is in place to adhere to the adopted budget.
7. The Finance Department will provide regular monthly reports comparing actual revenues and expenditures to the budgeted amounts.
8. The operating budget will describe the major goals to be achieved and the services and programs to be delivered for the level of funding provided.
9. In addition to operating expenses, Enterprise funds shall be budgeted to provide for replacement costs of property, plant, and equipment, if appropriate, when establishing rates and charges for services.

5. CAPITAL IMPROVEMENTS PLAN (CIP).

The demand for services and the cost of building and maintaining the City's infrastructure continues to increase. No city can afford to accomplish every project or meet every service demand. Therefore, a methodology must be employed that provides a realistic projection of community needs, the meeting of those needs, and a framework to support City Council prioritization of those needs. That is the broad purpose of the CIP.

The CIP includes the scheduling of public improvements for the community over a five-year period and takes into account the community's financial capabilities as well as its goals and priorities. A "capital improvement" is defined as any major nonrecurring expenditure for physical facilities of government. Typical expenditures are the cost of land acquisition or interest in land, construction of roads, utilities and parks. Vehicles and equipment can be covered in a CIP or covered separately under an equipment schedule. The CIP is directly linked to goals and policies, land use, and community facility sections of the Comprehensive Plan since these sections indicate general policy of development, redevelopment, and the maintenance of the community.

CIP Development Process

- Compile and prioritize projects. Staff will consolidate and prioritize recommended projects into the proposed Capital Improvement Plan.
- Devise proposed funding sources for proposed projects. Recommended funding sources will be clearly stated for each project.
- Project and analyze total debt service related to the total debt of the City. A debt study will summarize the combined impact of all the existing and proposed debt.

On an annual basis, the City Council will evaluate the proposed CIP and decide on the following:

- Project Prioritization
- Funding Source Acceptability
- Acceptable Financial Impact on Tax Levy, Total Debt, and Utility Rate Levels

6. HERMANTOWN ECONOMIC DEVELOPMENT AUTHORITY.

The Hermantown Economic Development Authority (HEDA) was created by the City Council on April 6, 1992. The City Council acted to appoint the City Councilors, Mayor and two public members to serve as the Board of Commissioners. Under Minnesota Statutes Chapter 469-Economic Development, cities are permitted to establish an EDA, including approval for the EDA to serve as a Housing & Redevelopment Authority (HRA). When the City created the EDA, it approved HRA authority for possible use in the future.

Among the HRA powers in Minnesota law is the authority to collect a “special benefits” tax up to 0.0185 percent of taxable market value in the City (Resolution 91-29 authorizes HEDA’s maximum levy at .01813) Approval of the City Council is required before the HEDA may levy the tax. The Revenue Management Policy of the City, as included in this Financial Management Plan, sets policy for when a tax levy may be considered. Of note, the HRA is a separate levy, and is not subject to the statutory levy limits. The HEDA is subject to the statutory levy limits, except for a debt levy.

This policy section sets policy for the “amount” of tax levy that will be considered for the HEDA.

Funding

The HEDA, with approval by the City Council, shall annually appropriate money to the HEDA from a tax levy or other available source. The appropriation shall be equivalent to the “maximum” that could be provided by a tax levy for economic development purposes. The annual tax levy shall be set based on the amount needed when combined with other available sources achieves the funding level set by this policy.

To provide other sources (non-tax) of funding to the HEDA, the City Council shall annually review the fund balance in the General Fund to determine whether sufficient unreserved fund balance is available for transfer from the General Fund to the HEDA. The decision on transfer of funds shall be made at the time the annual HEDA tax levy is established. If other sources of revenue are not available, the HEDA may set the tax levy at the maximum allowed.

Procedure for Using Funds

Expenditures may be made from the HEDA based on the following criteria:

- A. The HEDA appropriates the funds as part of the annual budget, or
- B. The HEDA authorizes an amendment to the HEDA budget outside of the annual appropriation process.

7. DEBT MANAGEMENT.

The use of borrowing and debt is an important and flexible revenue source available to the City. Debt is a mechanism which allows capital improvements to proceed when needed, in advance of when it would otherwise be possible. It can reduce long-term costs due to inflation, prevent lost opportunities, and equalize the costs of improvements to present and future constituencies.

Debt management is an integral part of the financial management of the City. Adequate resources must be provided for the repayment of debt, and the level of debt incurred by the City must be effectively controlled to amounts that are manageable and within levels that will maintain or enhance the City’s credit rating. A goal of debt management is to stabilize the overall debt burden and future tax levy requirements to ensure that issued debt can be repaid

and prevent default on any municipal debt. A debt level which is too high places a financial burden on taxpayers and can create problems for the community's economy as a whole.

Policy Statement

Wise and prudent use of debt provides fiscal and service advantages. Overuse of debt places a burden on the fiscal resources of the City and its taxpayers. The following guidelines provide a framework and limit on debt utilization:

1. The City will weigh the benefits and costs of long-term borrowing for planned capital improvements (see CIP Policy) and short-term debt for capital outlay.
2. The City should strive to avoid using long-term debt for current operations.
3. When considering financing of capital expenditures, the City may consider paying cash for capital financing as well as debt financing.
4. The City will pay back debt within a period not to exceed the expected useful life of the projects, with at least 50% of the principal retired within 2/3 of the term of the bond issue.
5. The City will maintain good communications with bond rating agencies regarding its financial condition. The City will follow a policy of full disclosure in every financial report and bond prospectus.
6. The City (by itself or with a financial advisor) will track and identify opportunities for restructuring or refinancing debt.
7. When feasible, the City will use refunding mechanisms to reduce interest cost and evaluate the use of debt reserves to lower overall annual debt service where possible.
8. The City's goal is to:
 - a. Maintain the level of annual debt service at or below the current debt levy.
 - b. Maintain a debt service levy that is up to 7% of general fund operating expenditures.
 - c. Quantify the impact of potential future debt on the debt service levy, and on various categories of property taxpayers (or other revenue derived customers).

During the budget process, the Council may review whether a debt study is necessary to be prepared in conjunction with the Capital Improvements Plan to provide information about the City's debt structure. In deciding whether to include a Debt Study, the Council will consider such factors as how long it has been since the last Debt Study, if there have been material changes to the CIP, or if a large amount of debt is expected in the near future.

8. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING.

The key to effective financial management is to provide accurate, current, and meaningful information about the City's operations to guide decision making and enhance and protect the City's financial position.

Policy Statement

1. The City's accounting system will maintain records on a basis consistent with generally accepted accounting standards and principles for local government accounting as set forth by the Government Accounting Standards Board (GASB) and in conformance with the State Auditor's requirements per State Statutes. This allows for modified accrual for populations exceeding 2,500.
2. The City will establish and maintain a high standard of accounting practices.
3. The City will follow a policy of full disclosure written in clear and understandable language in all reports on its financial condition.
4. The budget will be prepared in a manner to maximize its understanding by residents and elected officials. The budget will be available on the City's website.
5. The Finance Department will provide timely monthly and annual financial reports to users.
6. An independent public accounting firm will perform an annual audit and issue an opinion on the City's financial statements.
7. Annually the City Council and staff will meet with the Auditors to review the audit report.
8. Periodic financial reports on budget performance will be provided to the City Council quarterly.

9. RISK MANAGEMENT.

A comprehensive risk management plan seeks to manage the risks of loss encountered in the everyday operations of an organization. Risk management involves such key components as risk avoidance, risk reduction, risk assumption, and risk transfers through the purchase of insurance. The purpose of establishing a risk management policy is to help maintain the integrity and financial stability of the City, protect its employees from injury, and reduce overall costs of operations.

Policy Statement

1. The City will maintain a risk management program that will minimize the impact of legal liabilities, natural disasters, or other emergencies through the following activities:
 - a) Loss prevention - prevent losses where possible
 - b) Loss control - reduce or mitigate losses
 - c) Loss financing - provide a means to finance losses
 - d) Loss information management - collect and analyze data to make prudent prevention, control, and financing decisions.
2. The City will review and analyze all areas of risk in order to, whenever possible, avoid and reduce risks or transfer risks to other entities. Of the risks that must be retained, it shall be the policy to fund the risks which the City can afford and transfer all other risks to insurers.
3. The City will maintain an active safety committee comprised of City employees.
4. The City will periodically conduct educational safety and risk avoidance programs within its various divisions.

5. The City will, on an ongoing basis, analyze the feasibility of self-funding and other cooperative funding options in lieu of purchasing outside insurance in order to provide the best coverage at the most economical cost.
6. Staff will report to the Council, annually on the results of the City’s risk management program for the preceding year.

10. FUND BALANCE.

I. Purpose

The purpose of this policy is to establish specific guidelines the City of Hermantown will use to maintain an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids are received in the second half of the City’s fiscal year.

The purpose of this policy is to also establish specific guidelines the City of Hermantown will use to classify fund balances into a categories based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in these funds can be spent.

II. Classification of Fund Balance/Procedures

<i>Fund Balance Reporting</i>		
<i>Classification</i>	<i>Definition</i>	<i>Examples</i>
Nonspendable	“Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.” ³	<ul style="list-style-type: none"> • Inventories, • Prepaid items, and • Long-term receivables • Land held for resale
Restricted	“Fund balance should be reported as restricted when constraints placed on the use of resources are either: <ol style="list-style-type: none"> a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b. Imposed by law through constitutional provisions or enabling legislation.”⁴ 	<ul style="list-style-type: none"> • Restricted by state statute, • Unspent bond proceeds, • Grants earned but not spent, • Debt covenants, • Taxes dedicated to a specific purpose, and • Revenues restricted by enabling legislation.

Unrestricted	Committed	<p>“Used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority”⁵</p> <p>Cannot be a negative number.</p> <p>The City Council will annually or as deemed necessary commit specific revenue sources for specified purpose by resolution. This formal action must occur prior to the end of the reporting period, however, the amount to be subject to the constraint, may be determined in the subsequent period.</p> <p>To remove the constraint on specified use of committed resources, the City Council shall pass a resolution.</p>	<ul style="list-style-type: none"> • The City Council has decided to set aside \$x for a project. • Property tax levies set for a specific purpose by resolution. • Amounts transferred to Capital Project Fund for a specific purpose. • Internal Reserves for a specific purpose such as a large capital purchase.
	Assigned	<p>“Amounts that are constrained by the government’s intent to be used for specific purposes, but are neither restricted nor committed”⁶</p> <p>Cannot be a negative number.</p> <p>The City Council has delegated the authority to assign and remove assignments of fund balance for specified purposes to the Finance Director.</p>	<ul style="list-style-type: none"> • City Council can set aside specific funds the City’s Finance Director may amend up to specified amount. • City Council delegates the authority to assign fund balance to the Finance Director. • City Council has appropriated fund balance usually titled “subsequent year’s expenditures” • Positive residual balances in government funds other than the general fund.
	Unassigned	<p>Unassigned fund balance in the residual classification for the General Fund. This is fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other government funds would report deficit fund balances as unassigned. ⁷</p>	

² Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. The governmental fund category includes the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds. (Codification of Governmental Accounting and Financial Reporting Standards § 1300.102).

³ GASB Statement No. 54, ¶ 6

⁴ GASB Statement No. 54, ¶ 8

⁵ GASB Statement No. 54, ¶ 10

⁶ GASB Statement No. 54, ¶ 13

⁷ GASB Statement No. 54, ¶ 17

III. Minimum Fund Balance

The City's revenue stream is not evenly distributed throughout the year (i.e. property tax and state aid) and will need sufficient beginning fund balances to pay expenditures until these revenues are received. In order to avoid service disruptions that otherwise could arise from revenue shortfalls or unanticipated expenditures, governmental fund balances will be managed in such a way as to maintain unrestricted fund balance on the last day of each fiscal year equal to the following:

1. Up to 50% of Property Tax Levy – Budgeted in following year
2. Up to 50% of State Aid Revenues – Local Government Aid and Municipal State Aid for Roads: Budgeted in following year
3. Up to 10% of Annual Expenditures and Transfers Out – Budgeted in following year

IV. Order of Resource Use

Restricted fund balance resources are normally used first when an expenditure is incurred for purposes of which both restricted and unrestricted fund balance are available. Also, for unrestricted fund balance, the City will spend in the following order; committed, assigned and unassigned, when an expenditure is incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

V. Stabilization Arrangements

Stabilization arrangements are defined as formally setting aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. The City will set aside amounts by resolution as deemed necessary that can only be expended when certain specific circumstances exist. The resolution will identify and describe the specific circumstances under which a need for stabilization arises. The need for stabilization will only be utilized for situations that are not expected to occur routinely.

VI. Committing Fund Balance

The City Council has the authority to set aside funds for a specific purpose. Any funds set aside as Committed Fund Balance requires the passage of a resolution prior to December 31st of the applicable fiscal year. If the actual amount of the commitment is not available by December 31st, the resolution must state the process or formula necessary to calculate the actual amount as soon as information is available.

VII. Assigning Fund Balance

Upon passage of the Fund Balance Policy, authority is given to the City's Finance Director to assign funds for specific purposes. Any funds set aside as Assigned Fund Balance must be reported to the City Council and be recorded in the council minutes. The City Council has the authority to remove or change the assignment of the funds by motion or resolution.

The City Council has the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as Assigned Fund Balance requires a motion or resolution and recorded in the council minutes. The same action is required to change or remove the assignment. Examples include: Appropriation of existing fund balance to be used to balance the subsequent year's budget and budget carry-overs for specific items, such as election funding and capital improvement funding.

VIII. Appropriate Fund Balance Levels

The City will maintain an unrestricted fund balance in the General Fund of 35- 50% or no less than five months of the next year's budgeted expenditures of the General Fund. This will assist in maintaining an adequate level of fund balance to provide for cash flow requirements and contingency needs because major revenues, including property taxes and other government aids, are received in the second half of the City's fiscal year.

IX. Monitoring and Reporting

The **City Administrator** and **Finance Director** shall annually prepare the status of fund balances in relation to this policy and present to the City Council in conjunction with the development of the annual budget.

X. Responsibility and Authority

Administrative implementation of policies is the responsibility of staff and council.

Budget Policy & Financial Control

Budgets are financial plans for future events. As better information becomes available, the budget may be amended by the City Council. Annual budgets are prepared per Section 220.03.1.7 of the Hermantown Code of Ordinances. The budget requests link to overall City goals.

Ordinary operating expenditures are subdivided into personal services, supplies, other services & charges, capital outlay, and other financing uses.

Budget Process

Annual budgets are adopted for the General, Special Revenue, Debt Service, and Proprietary Funds. Within the General fund, budgets are prepared for each major department. For example, Finance and Administration is a department within the General fund.

Budgets are adopted on a basis consistent with generally accepted accounting principles. Formal budgets are not adopted for the Capital Project funds; budgetary control is accomplished through the use of project controls.

The City follows the procedures below in establishing the budget:

Budget forms are supplied to all City departments and consultants. The City Administrator conducts budget assistance meetings (if necessary) with each department and consultant. Budget requests and supplementary information from all city departments and consultants must be received by mid-July. The City Administrator and Finance Director prepare the budgeted personnel expenses and revenue portions of the budget. Per the City Operating Budget Policy, appropriations shall not exceed the total of the estimated revenues and available fund balance. The City Administrator meets with departments to discuss and review recommended budgets. The City Administrator and department heads present to the City Council a consolidated budget for the general fund in mid-August for the fiscal year commencing the following January 1. The City sets the preliminary levy and the public hearing information, which is forwarded to the County Auditor by September 15th each year. The County mails parcel specific tax notices to property owners providing taxes due the following year based on the preliminary levy. A budget and levy hearing is held in December in accordance with State law. The budget and tax levy are adopted through passage of resolutions. There are two opportunities for public input on the proposed budget including the presentation of the preliminary budget in September and the budget and levy hearing in December.

Budgeted amounts are reported as originally adopted. Budgeted expenditure appropriations lapse at year-end. The government's department heads may make transfers of appropriations within a department. The City Council may authorize budget amendments for transfer of budgeted amounts between funds. The City Council will adopt a revised budget in December of each year for the current year. The budgetary level of control is at the department level. The City adopted an Operating Budget Policy in July of 2010.

Budget Calendar

2017 BUDGET CALENDAR

<u>Date</u>	<u>Task</u>
1 st Monday of April FAST TRACK	Distribution of CIP Instructions and Forms
3 rd Monday of June	ALL PERSONNEL COSTS COMPLETED by the Finance Dept. (assuming no staff changes at this point) Staffing Report Presented to City Council
June 1 FAST TRACK	Budget manual forms supplied to all city departments & consultants Review CIP
End of June	City Administrator to conduct budget assistance meetings (if necessary) with each department
End of July	ALL CAPITAL IMPROVEMENTS INCLUDED Presented to City Council
July 3	FINAL DATE to receive budget requests & supplementary information from all city departments & consultants
3 rd Week of July	City Administrator holds budget sessions with city departments as necessary
End of July	Liability insurance allocated by Finance Department
1 st 2 weeks of August	Finance prepares Preliminary Revenue estimates.
During August	Special Revenue Budgets presented to Parks, Planning & Utility Commissions
1 st Monday of September	PRELIMINARY GENERAL FUND BUDGET - Presented to the City Council
3 rd Monday of September	City Council to pass a levy and city certifies the proposed property tax levy to the County Auditor by September 30th and certify the Truth-In-Taxation hearing date (Special Meeting)
1 st Monday of October	PRELIMINARY DEBT SERVICE BUDGETS COMPLETED by Finance Department – Presented to City Council (without additional tax levy)
3 rd Monday of October	PRELIMINARY SPECIAL REVENUE BUDGETS COMPLETED Presented to City Council
3 rd Monday of November	Budget booklet presented to City Council
1 st Monday of December	Initial Hearing on budget & levy Adoption of Final Levy & Budget

Financial Summaries

2016 Statement of Accounts - All Funds

For January 1, 2016 through November 14, 2016

Fund	Beginning	Receipts	Disbursements	Ending 11/14/16
101 General	3,373,376	2,940,419	4,477,256	1,836,539
230 HEDA	73,841	56,053	21,379	108,515
231 Community Development	106,688	0	0	106,688
235 Park Dedication	299,221	62,583	593	361,212
236 Wetland Mitigation	84,390	1,457	0	85,847
240 City Sales Tax	4,059,976	2,152,371	1,454,464	4,757,883
251 Police Program	82,951	16,567	6,005	93,512
260 Cable	309,597	21,199	52,177	278,619
270 Soccer	(14,519)	21,922	0	7,403
301 Certificate of Indebtedness	(37,944)	28,832	49,547	(58,659)
315 2006A City Hall Bonds	760,908	698,807	703,980	755,735
316 2007A Refunding Bonds	(176,673)	14,332	475	(162,816)
317 2007B G.O. Bonds	80,273	137,268	133,095	84,446
318 2009A G.O. Improvement Bonds	256,316	359,331	448,581	167,066
319 2010A G.O. Bonds	330,561	357,389	391,887	296,062
320 2012A G.O. Bonds	(229,769)	262,399	282,373	(249,743)
321 2012B G.O. Improvement Bonds	1,153,155	143,552	200,769	1,095,938
322 2014A G.O. Improvement Bonds	1,521,475	177,490	217,825	1,481,140
350 Special Assessment Deficiency	611,760	25,454	277,031	360,183
401 General Capital Projects	423,128	378,446	251,122	550,452
402 Municipal State Aid Streets	(2,242)	2,036,894	2,154,925	(120,273)
409 Municipal Building Reserve	301,603	0	48,405	253,198
411 Essentia Health and Wellness	3,819	6,336	12,444	(2,288)
460 TIF District	(714,438)	6,613	2,032	(709,857)
461 HEDA Fleet Farm Project	(117,464)	17,485	8,801	(108,780)
475 Special Assessment Capital Projects	1,700			1,700
601 Water Enterprise	10,890,248	1,153,994	993,048	11,051,194
602 Sewer Enterprise	29,698,874	1,133,887	800,132	30,032,630
605 Street Lighting Utility	<u>701,030</u>	<u>94,916</u>	<u>71,488</u>	<u>724,458</u>
Total All Funds	53,831,842	12,305,994	13,059,832	53,078,004

City of Hermantown Budgeted Funds

Minnesota Statute 412.711 CONSIDERATION OF BUDGET; TAX LEVY.

The annual budget finally agreed upon shall set forth in detail the complete financial plan of the city for the ensuing fiscal year for the funds budgeted and shall be signed by the majority of the council when adopted.

Fund revenues and expenditures are budgeted using modified accrual where expenditures are recognized when incurred and payment is due, and revenues are recognized when they are measurable and available. This is the same basis as used in the City's audited financial statements.

In addition to the **General Fund** (the City's primary operating fund) the City has various separate special revenue funds, debt service, enterprise and capital project funds. The funds are detailed below.

Special Revenue Funds:

HEDA – Hermantown Economic Development Authority for the accounting of revenue collected from conduit financing and expenditures such as business subsidy and community study

Community Development is for the accounting of revenues that assist community infrastructure projects.

Park Dedication for the accounting of revenue collected from new buildings and developments, and expenditures for park development.

Wetland Mitigation for the accounting of revenue from landowners who disturb the wetland in connection of development, and expenditures for Wetland acquisition and preservation.

City Sales Tax is for the collection of 1% local sales tax, and expenditures authorized by the Minnesota Legislature.

Police Program is for the accounting of alcohol and drug forfeitures, Hermantown High School District and the expenditures for furthering alcohol and drug investigations, the school liaison and DARE programs.

Cable Television is for the accounting of revenue from Mediacom franchise fees, and expenditures to provide local public channel in Hermantown.

Soccer is for the accounting of revenue from the Hermantown Soccer Association, and expenditures related to the development of the soccer fields.

Debt Service Funds:

Debt Service is used to account for revenue collected from assessments, fund transfers, levy and expenditures for bond principal, interest and fiscal agent fees.

Enterprise Funds:

Water is for accounting of revenue from water fees and expenditures for the distribution of treated water.

Sewer is for accounting of revenue from sewer disposal service and expenditures for the collection of sewer sanitary waste.

Street Lighting is for accounting of revenue from street lighting fees and expenditures in the City's right of way.

The City has additional funds for Capital Projects that are not included in this budget document. Although not required to be budgeted, these funds are included in the City's audited financial statements.

Major Funds and Non-Major Funds by Fund Type

	2015 Actual		2016 Original Budget		2017 Budget	
	Revenues	Expenditures	Revenues	Expenditures	Revenues	Expenditures
General Fund	4,805,742	4,749,104	4,720,500	4,720,500	5,100,289	5,100,289
Special Revenue Funds						
City Sales Tax	2,737,305	1,565,545	2,516,000	1,405,203	2,821,000	1,552,435
Non-Major Special Revenue Funds	323,279	136,955	247,076	166,839	179,855	121,311
Debt Service Funds						
Non-Major Debt Service Funds	2,583,670	3,406,958	2,309,542	2,499,554	2,237,846	2,233,794
Capital Project Funds	712,146	637,261			280,000	280,000
Enterprise Funds						
Water Enterprise	1,446,384	1,318,572	1,440,710	1,397,461	1,506,019	1,553,476
Sewer Enterprise	1,433,184	1,362,285	1,332,078	1,393,623	1,403,619	1,528,223
Street Lighting	152,624	58,695	135,100	45,700	134,000	83,010
Total All Funds	14,194,334	13,235,375	12,701,006	11,628,880	13,662,628	12,452,538

2017 Budget Summary – All Funds Budgeted Revenues

	ACTUAL 2015	BUDGET 2016	ADOPTED 2017
GENERAL FUND			
Taxes	\$3,623,092	\$3,925,900	\$4,447,658
Licenses & Permits	271,133	195,195	184,000
Intergovernmental	562,618	395,373	298,113
Charges for Services	72,673	30,341	36,759
Fines & Forfeits	55,932	53,250	53,200
Investment Income	32,631	28,500	19,500
Miscellaneous	106,792	61,941	46,059
Other Financing Sources	80,871	30,000	15,000
	<u>\$4,805,742</u>	<u>\$4,720,500</u>	<u>\$5,100,289</u>
SPECIAL REVENUE FUNDS			
Taxes	\$2,760,140	\$2,572,380	\$2,872,380
Special Assessments	41,804	42,700	42,700
Licenses and permits	74,534	24,000	26,000
Charges for Services	64,576	65,867	
Fines & Forfeits	13,094	5,900	4,000
Investment Income	29,054	20,415	23,835
Miscellaneous	62,382	16,814	31,940
Other Financing Sources	15,000	15,000	
	<u>\$3,060,584</u>	<u>\$2,763,076</u>	<u>\$3,000,855</u>
DEBT SERVICE FUNDS			
Taxes	\$156,483	\$116,982	\$128,297
Special Assessments	799,563	517,070	475,408
Investment Income	4,441		
Other Financing	1,623,183	1,675,490	1,634,141
	<u>\$2,583,670</u>	<u>\$2,309,542</u>	<u>\$2,237,846</u>
CAPITAL PROJECT FUNDS**			
Intergovernmental	342,146		
Miscellaneous			
Other Financing sources	370,000		280,000
	<u>\$712,146</u>	<u>\$0</u>	<u>\$280,000</u>
TOTAL GOVERNMENTAL FUNDS			
	<u>\$11,162,142</u>	<u>\$9,793,118</u>	<u>\$10,618,990</u>
ENTERPRISE FUNDS			
<i>Water Utility</i>			
Operating revenues	\$1,262,401	\$1,344,911	\$1,365,407
Non-operating revenues	\$183,983	\$95,799	\$140,612
<i>Sewer Disposal</i>			
Operating revenues	\$1,293,302	1,250,530	\$1,304,563
Non-operating revenues	\$139,882	81,548	\$99,056
<i>Street Lighting & Traffic Signalization</i>			
Operating revenues	134,151	130,000	130,000
Non-operating revenues	18,473	5,100	4,000
TOTAL ENTERPRISE FUNDS	<u>\$3,032,192</u>	<u>\$2,907,888</u>	<u>\$3,043,638</u>
TOTAL REVENUES	<u>\$14,194,334</u>	<u>\$12,701,006</u>	<u>\$13,662,628</u>

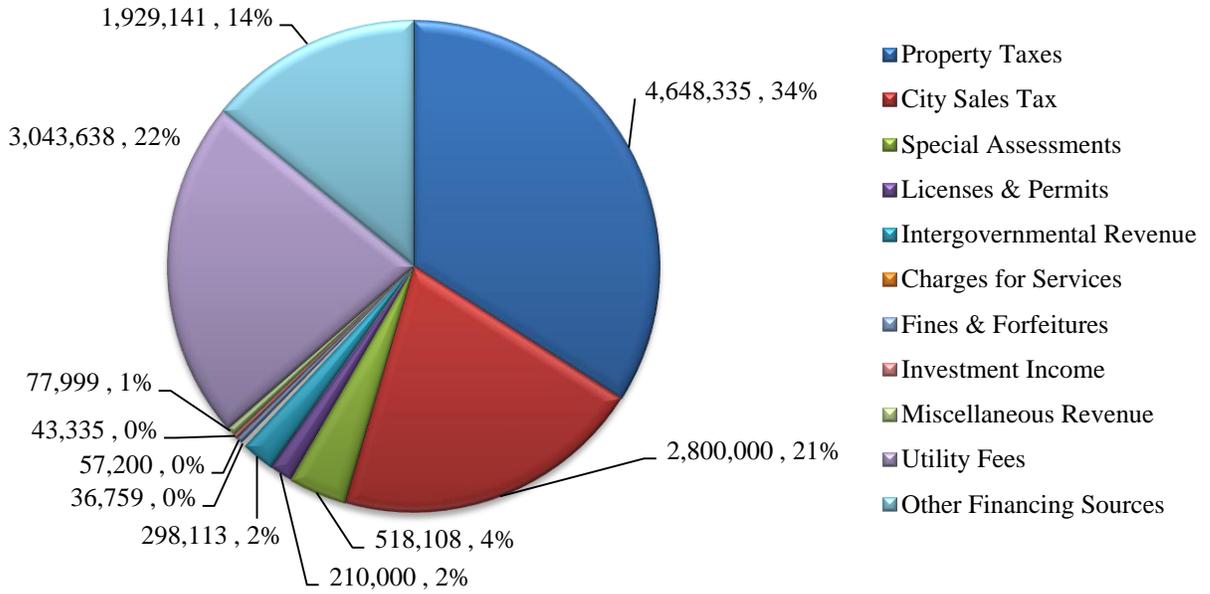
**For 2017, Capital Project Funds are shown separately. Previous years, it was included in Special Revenue Funds.

Budgeted Expenditures

	ACTUAL 2015	ORIGINAL BUDGET 2016	BUDGET 2017
GENERAL FUND			
General Government	\$ 717,292	\$ 756,310	\$ 774,959
Public Safety	2,766,513	2,903,704	3,284,438
Streets and Highways	529,395	655,899	681,192
Community Development	222,829	316,234	326,700
Capital Outlay	125,595		
Debt Service	9,907		
Other Financing Uses	377,573	88,353	33,000
	<u>\$ 4,749,104</u>	<u>\$ 4,720,500</u>	<u>\$ 5,100,289</u>
SPECIAL REVENUE FUNDS			
Public Safety	\$ 85,485		
Community Development	\$ 30,533	\$ 75,700	\$ 75,082
Culture and Recreation		20,000	
Capital Outlay	1,510	7,400	27,400
City Sales Tax	1,565,545	1,405,203	1,552,435
Police Liaison Education			
Police Program			
Cable Television	19,425	63,739	18,829
	<u>\$ 1,702,498</u>	<u>\$ 1,572,042</u>	<u>\$ 1,673,746</u>
DEBT SERVICE FUNDS			
Principal	2,450,956	\$ 1,652,266	\$ 1,643,297
Interest & Fiscal Charges	761,243	654,799	562,691
Other Financing Uses	194,763	192,489	27,806
	<u>\$3,406,962</u>	<u>\$ 2,499,554</u>	<u>\$ 2,233,794</u>
CAPITAL PROJECT FUNDS			
Community Development	\$408,773		
Capital Outlay	172,488		\$ 280,000
Debt Service			
Other Financing Uses	56,000		
	<u>\$637,261</u>	<u>\$0</u>	<u>\$280,000</u>
TOTAL GOVERNMENT FUNDS	\$10,495,825	\$8,792,096	\$9,287,829
ENTERPRISE FUNDS			
Water Utility			
-Operating	\$ 1,101,306	\$ 1,184,461	\$ 1,230,039
-Depreciation	168,363	165,000	170,000
-Other Financing Uses	48,903	48,000	153,437
Sewage Disposal			
-Operating	814,710	873,623	890,885
-Depreciation	487,917	460,000	460,000
-Other Financing Uses	59,656	60,000	177,338
Street Lighting Utility			
-Operating	52,979	40,200	42,800
-Depreciation	3,216	3,000	3,210
-Other Financing Uses	2,500	2,500	37,000
	<u>\$ 2,739,550</u>	<u>\$ 2,836,784</u>	<u>\$ 3,164,709</u>
TOTAL EXPENSES	<u>\$13,235,375</u>	<u>\$ 11,628,880</u>	<u>\$12,452,538</u>

The budget is a blueprint for City services and plans for fiscal year 2017. The purpose of the budget is to communicate the financial plans of the City and its allocation of resources. This document expresses priorities, goals, plans and targets. The budget is an implementation plan to achieve the City’s goals and objectives.

2017 Budgeted Revenues

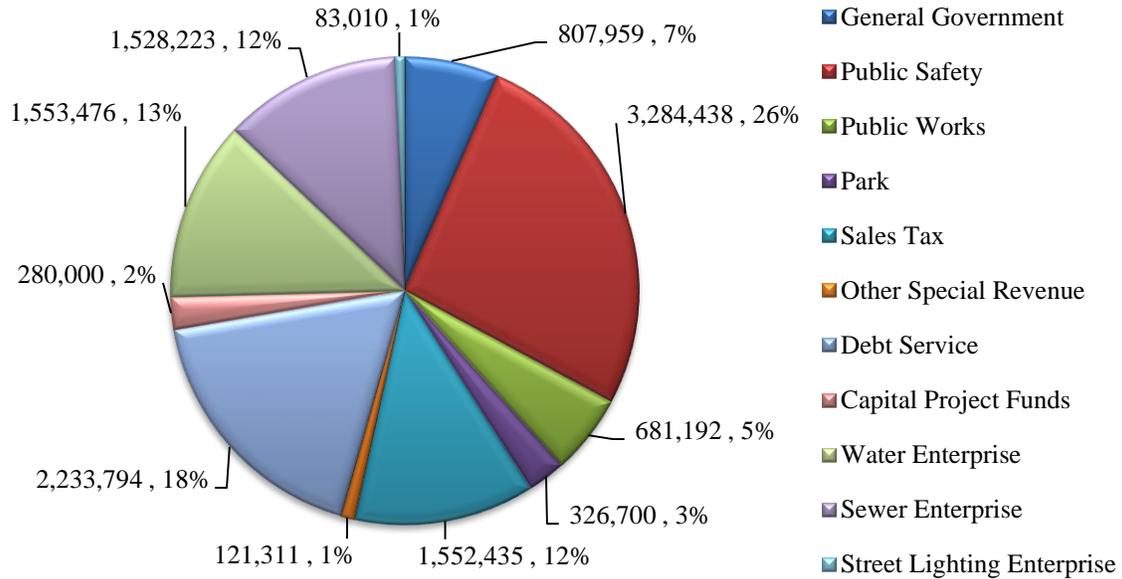


Total Budgeted revenues for all funds equal \$13,662,628.

The four largest components of the 2017 revenue budget, accounting for 81 percent of total revenues, in descending order based on dollars are as follows:

Property Taxes	\$4,648,335	34%
Utility Fees	\$3,043,638	22%
City Sales Taxes	\$2,800,000	21%
Special Assessments	\$518,108	4%

2017 Budgeted Expenditures by Function

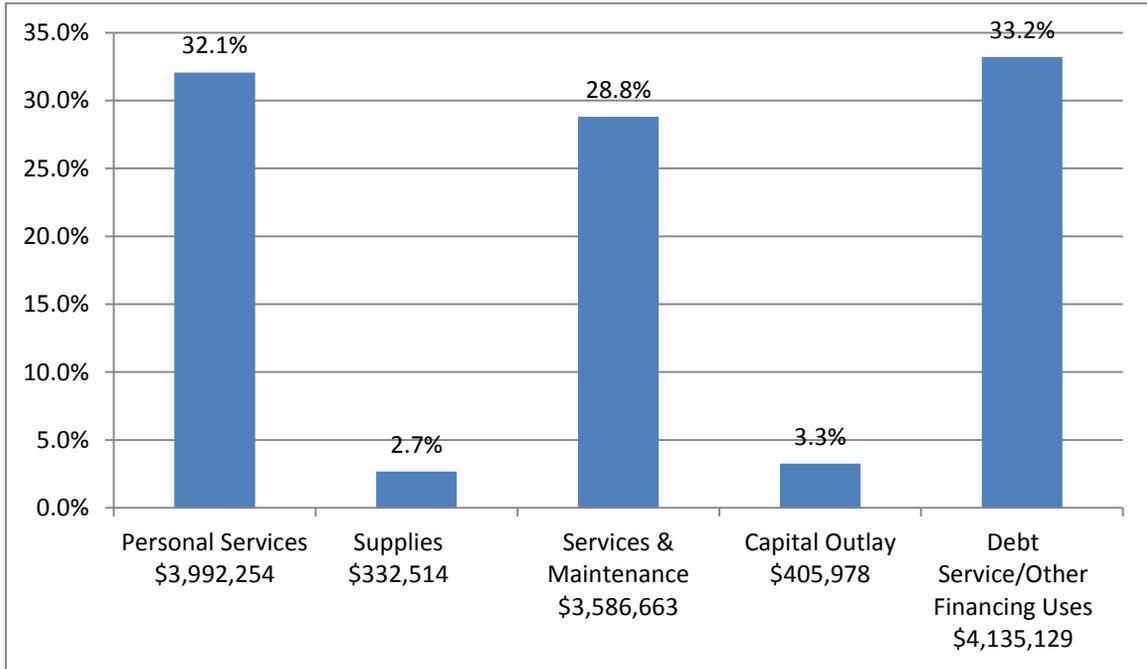


Total budgeted expenses for all funds are \$12,452,538

The four largest components of the 2017 expenditure budget, accounting for 69 percent of the appropriations, in descending order based on dollars are as follows:

Public Safety	\$3,284,438	26%
Debt Service	\$2,233,794	18%
Water Enterprise	\$1,553,476	13%
Sewer Enterprise	\$1,528,223	12%

All Funds – Expenses by Category



The City's expenditures are budgeted in five major spending categories: personal services, supplies, services & maintenance, capital outlay, and debt service/other financing uses. This chart shows the breakdown of expenditures by spending category.

Changes in Budgeted Fund Balance

Fund Balance is defined as the difference between a fund's assets and liabilities. Adequate fund balance is necessary to have funds for emergency or unexpected events, to enhance the City's financial position and bond ratings, to provide cash for operations prior to receipt of tax revenues and to maximize investment earnings.

Fund Name	*2017 Beginning Fund Balance	2017 Revenues	2017 Expenditures	2017 Ending Fund Balance	% Change in Fund Balance	\$ Change in Fund Balance	Reason for Greater than 10% Variance
101 General	1,836,539	5,100,289	5,100,289	1,836,539		0	
230 HEDA	108,515	75,082	75,082	108,515		0	
231 Community Development	106,688	0	0	106,688	0	0	
235 Park Dedication	361,212	33,846	20,000	375,058	3.69%	13,846	
236 Wetland Mitigation	85,847	1,000	7,400	79,447	-8.06%	(6,400)	
240 City Sales Tax	4,757,883	2,821,000	1,552,435	6,026,448	21.05%	1,268,565	Build reserve for debt service, water & sewer
251 Police Program	93,512	4,005	0	97,517	4.11%	4,005	
260 Cable	278,619	44,000	18,829	303,790	8.29%	25,171	
270 Soccer	7,403	21,922	0	29,325	74.76%	21,922	adjusted budget to actual revenues from agreements
301 Certificate of Indebtedness	(58,659)	49,547	49,547	(58,659)	0.00%	0	
315 2006A City Hall Bonds	755,735	698,807	680,998	773,544	2.30%	17,809	
316 2007A Refunding Bonds	(162,816)	0	0	(162,816)	0.00%	0	
317 2007B G.O. Bonds	84,446	0	0	84,446	0.00%	0	
318 2009A G.O. Improvement Bonds	167,066	436,195	439,600	163,661	-2.08%	(3,405)	
319 2010A G. O. Bonds	296,062	362,118	390,263	267,917	-10.51%	(28,145)	advance refund was done, bonds will be called in 2018
320 2012A G.O. Bonds	(249,743)	242,575	180,742	(187,910)	-32.91%	61,833	refunded bond, increased revenue
321 2012B G.O. Bonds	1,095,938	175,223	203,038	1,068,123	-2.60%	(27,815)	
322 2014A G.O. Bonds	1,481,140	271,504	261,800	1,490,844	0.65%	9,704	
350 Special Assessment Deficiency	360,183	1,877	27,806	334,254	-7.76%	(25,929)	
601 Water Enterprise	11,051,194	1,506,019	1,553,576	11,003,637	-0.43%	(47,557)	
602 Sewer Enterprise	30,032,630	1,403,619	1,528,223	29,908,026	-0.42%	(124,604)	
605 Street Lighting Utility	724,458	134,000	83,010	775,448	6.58%	50,990	
* Beginning balance as of November 14, 2016							

Sales Tax Fund (Fund 240) – Funds are used to build reserves for future debt service transfers through 2028. In addition, reserves are for additional sewer interceptor lines, related improvements to the water system, and hopefully the Essentia Health and Wellness Center.

Soccer Association Fund (Fund 270) – This fund reflects the income received from development agreements. Expenses no longer need to be budgeted for this fund.

2012A G.O. Bond (Fund 320) – This bond was refunded, which increased revenue.

Long Range Financial Plans

(And its affect upon the budget and the budget process)

- The City of Hermantown residents passed the 1% local sales tax increase at the 2012 General Election, which became effective on April 1, 2013. Pursuant to Minnesota Statutes, the local sales tax expenditures are restricted to the following:

Extending a sewer interceptor line, construction of a booster pump station, reservoirs and related improvement to the water system; and construction of a building containing the administration services/police/fire services. This legislation authority for this sales tax extends to 2026.

In addition, on November 8, 2016, the City received voter approval to fund its portion of the Essentia Health and Wellness Center project using current sales tax revenue. The City needs Legislative approval of this use for sales tax. That approval was in the 2016 State Tax Bill, but the overall tax bill was vetoed. The City anticipates that Legislative approval will be received in the 2017 Legislative session.

The Essentia Health and Wellness Center will be owned by the City of Hermantown; however, the YMCA will run its operations. The overall construction will not impact the City's General Fund, with only minimal administrative costs expected when the project moves forward.

- The City contracted with its municipal fund advisors, Ehlers, to do a comprehensive debt study which was completed in 2016. The study concluded that the current income stream is sufficient to make all debt payments through the life of the City's bonds.
- The City continues to review the interest rate and call dates of the bonds to monitor the possibility of reducing interest costs by re-financing. As a result of this continual review, the City refunded two of its current bonds in 2016, which will save a substantial amount of interest in the future. Standard and Poor's maintained the City's AA rating for these refunding's.
- We will continue to review, on an annual basis, the deferred special assessments, water and sewer availabilities and change in ownership of property that cancels the deferrals.
- The City annually reviews its fee structure and utility rates to keep up with costs.
- City Councilors have quarterly work sessions to discuss their priorities.
- In 2016, the City re-implemented its Capital Improvement Plan. The planning process continues to improve with more involvement from Department Heads.
- The City is currently working on developing and maintaining a five year forecast. The budget will be part of this document.
- The City is currently looking at expanding the Road Improvement Plan to include a long-term funding mechanism.

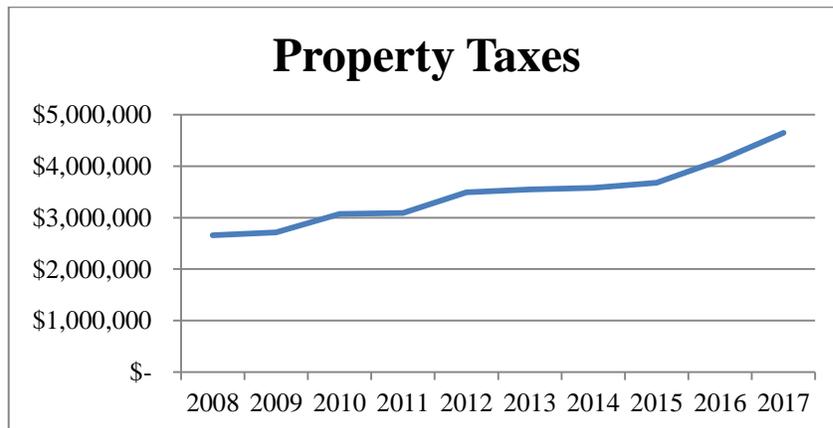
Revenue Categories & Trends

The five largest components of the 2017 revenue budget, accounting for 95 percent of total revenues, in descending order based on dollars are as follows:

Property Taxes	\$4,648,335	34%
Utility Fees	\$3,043,638	22%
City Sales Taxes	\$2,800,000	21%
Other Financing Sources	\$1,929,141	14%
Special Assessments	\$518,108	4%

The largest sources of revenue are described below. The largest five categories include Property Taxes, Utility Fees, City Sales & Use Taxes, Other Financing Sources, and Special Assessments which account for 95 percent of the revenue budget.

Property Taxes – The largest source of revenue is property taxes of \$4,648,335 comprising 34 percent of total revenues. Property tax levies are set by the City Council in December of each year and is certified to St. Louis County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. Property taxes are levied for several different City purposes. The largest section of property tax is put into the General Fund to support general taxpayer services such as police and fire protection, administration, and street plowing and repair. The City also has two special levies for debt service: Certificate of Indebtedness for purchase of a motor grader and the Public Works Facility/Salt Storage Facility.

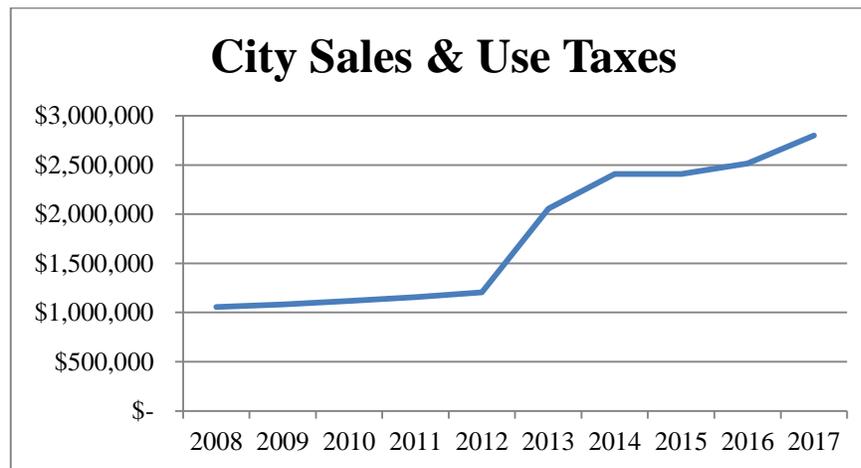


Trends: Property tax levies have been increasing due to cuts in state aid that began in 2001. This is shown in the graph above. The State of Minnesota legislature continues to study the formula for Local Government Aid (LGA). For the year 2017 the City will lose almost 60% of the 2016 LGA. The City and the State do not have the same budget year. When the state legislature enacts cuts within the City's calendar year, the City is unable to make changes in its current property tax levy to make up the shortfall.

Local Government Aid – Comparison in order by Cities and population

City	2015	2016	2017	2015-2016 Incr/(Dec)	% Change	Population 2014
Duluth	\$29,203,638	\$29,264,120	\$29,299,735	\$35,615	0.12%	86,367
Hibbing	\$8,095,281	\$8,098,798	\$8,101,990	\$3,196	0.04%	16,340
Hermantown	\$259,511	\$163,261	\$66,001	-\$97,260	-59.57%	9,726
Virginia	\$5,051,344	\$5,082,966	\$5,100,026	\$17,030	0.34%	8,640
Proctor	\$1,026,173	\$1,029,530	\$1,031,210	\$1,680	0.16%	3,100
Carlton County:						
Cloquet	\$2,343,138	\$2,356,480	\$2,363,651	\$7,171	0.30%	12,258

City Sales & Use Taxes – Sales taxes account for \$2,800,000 (21%) city revenue. The balance of the budgeted revenue in the Sales Tax Fund is for investment income. Local sales and use tax applies to retail sales made and taxable services provided within the local taxing area. The tax applies to the same items that are taxed by the Minnesota sales and use tax law. The Minnesota Department of Revenue currently administers this local sales tax. The City has an agreement with the Minnesota Department of Revenue which addresses the fees and procedures of the local sales tax collection and payment. Sales tax revenues less state administration fees are remitted to the City each month.



*2016 and 2017 are based on budgeted revenues.

Trends: Sales tax revenue is expected to increase due to the opening of Fleet Farm and Kwik Trip stores in 2017.

Franchise Fees –Total Franchise fees are anticipated in the amount of \$188,700.

Trends: The Franchise fees makes up of the following and is expected to remain constant through 2017.

MN Energy Gas Resources is remaining \$40,000, of which \$16,000 goes to General Fund 101 and \$24,000 to Street Lighting Fund 605.

MN Power Electric is \$106,000 of which all goes to Street Lighting Fund 605. Revenue is expected to increase each year.

MediaCom Cable has remained constant at \$42,700, of which all goes to Cable TV Fund 230.

Licenses and Permits – License and permit fees of \$184,000 account for 4 percent of total revenues. Permits are required for most construction projects and major remodeling projects. Examples of permits required are building permits, zoning permits, driveway permits, and handgun/bow permits. Licenses are required for certain businesses selling liquor, beer, or tobacco and for dogs in the City.

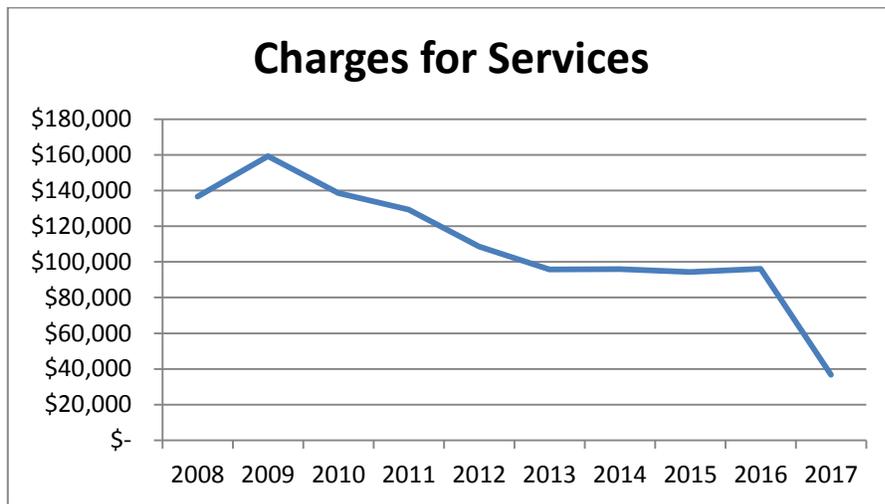
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
All Building Permits (includes additions, remodels)					
No. of Permits	168	156	182	201	201
Valuation	\$12,906,718	\$9,796,333	\$18,909,770	\$20,550,654	\$30,817,218
New Single Family Homes					
No. of Permits	25	32	33	39	36
Valuation	\$4,995,529	\$7,083,536	\$6,613,805	\$8,098,830	\$8,002,065
New Multiple Family Buildings					
No. of Permits	0	1	0	0	0
Valuation	\$0	\$420,000	\$0	\$0	\$0
New Commercial/Industrial					
No. of Permits	1	1	2	2	2
Valuation	\$5,328,233	\$733,635	\$1,010,808	\$1,010,808	\$15,094,392
* As of November 2016					

Trends: License revenue is expected to remain level in 2017.

Intergovernmental Revenues – This revenue accounts for \$298,113 of City revenues or 2 percent. Intergovernmental revenue includes Local Government Aid, Police & Fire State Aid and grants for Police, Street Maintenance, and PERA.

Trends: The major revenue within this category is Local Government Aid which is administered by the State of Minnesota. Local Government Aid (LGA) for the 2017 budget was set at \$66,001. This is a decrease of \$97,260 or 60% in LGA funding from 2016. The trend is LGA will continue to decrease.

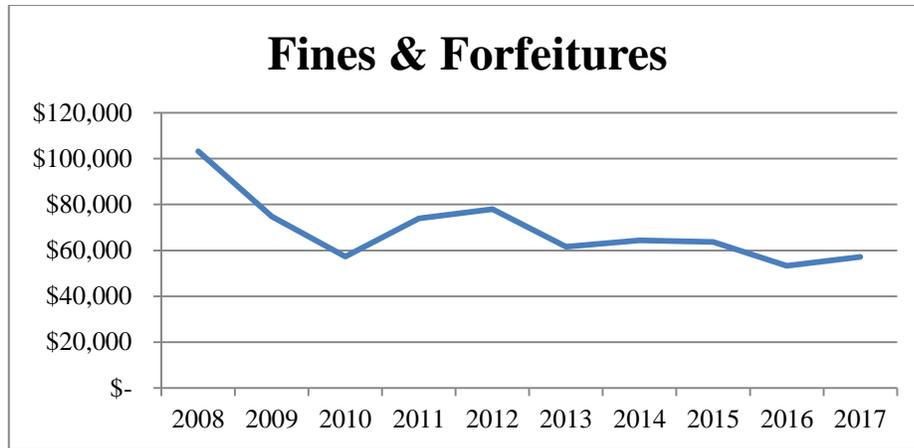
Charges for Services – Charges for services account for \$36,759 of City revenues. This category includes charges for building rentals, assessment searches, fingerprinting services and cemetery burial. Police Services are no longer included in charges for service.



*2016 and 2017 are based on budgeted revenues.

Trends: Police Services are no longer included as revenue, as they are offset by Grants.

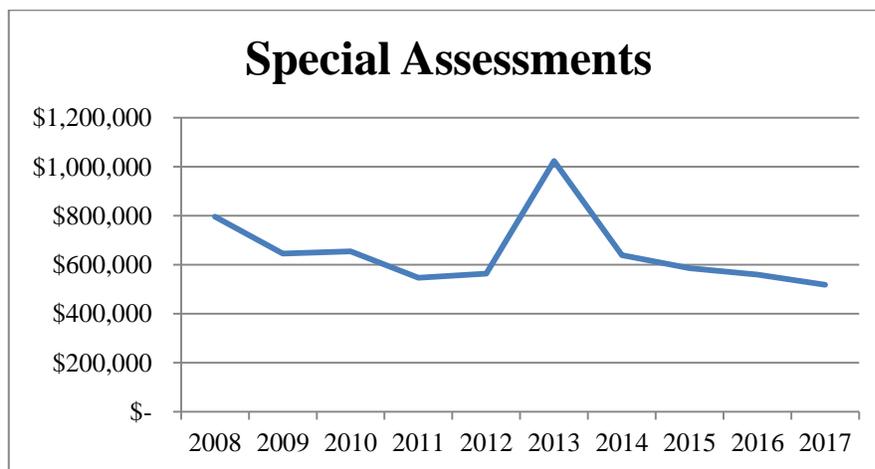
Fines & Forfeitures – Fines & forfeitures account for \$53,200 of City revenues or 1 percent. These funds are the City’s share of police patrol traffic citations, court fines, and DWI/Drug forfeiture proceeds.



*2016 and 2017 are based on budgeted revenues.

Trends: Hermantown is one of two communities in South St. Louis County that receives DARE court fines. The DARE court fines are allocated per school grade enrollment. The police department now has two full time investigators that will bring more attention to the fines and forfeitures.

Special Assessments – Special assessments account for \$518,108 of City revenues or 4 percent. These funds are collections from specific projects that require a payment from the taxpayer, such as water and sewer line construction or street improvements. These assessments are collected by St. Louis County along with the property tax levy.



*2016 and 2017 are based on budgeted revenues.

Trends: Special Assessment revenues fluctuate due to the timing of water, sewer, and street infrastructure projects.

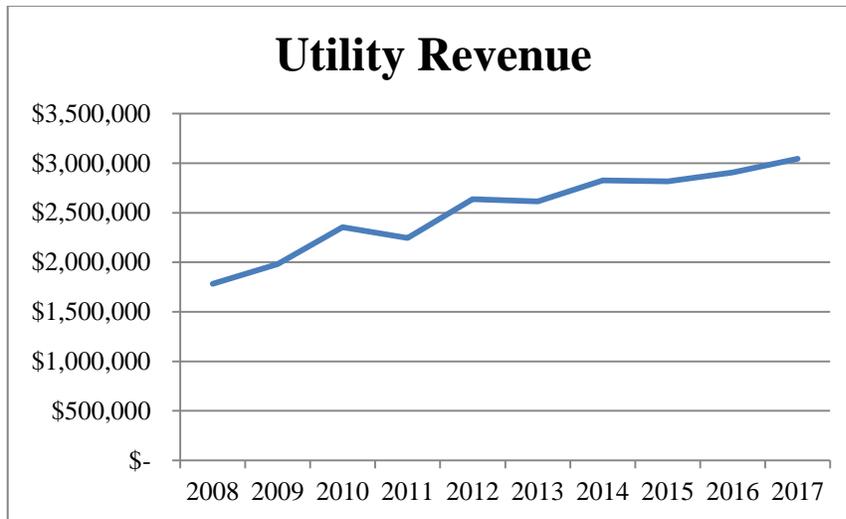
Investment Income – Investment income accounts for \$43,335 of City revenues or 1 percent. (General Fund \$19,500 and Special Revenue \$23,835)

Trends: Earnings are dependent on interest rates and amount of funds available to invest. The trends in rates are steady and have been consistent for several years. As always, investment earnings are subject to sudden shifts in the economy.

Miscellaneous Revenue – Miscellaneous revenue accounts for \$77,999 of City revenues. This category includes cell tower, park fields, city property rental income, donations, 911 signs, insurance reimbursements, and conduit financing.

Trends: These revenues are expected to remain constant over the next several years.

Utility Revenue – Utility Revenue for water, sewer, and street lighting account for \$3,043,638 of the City’s revenues or 22 percent. The 2017 water rate is \$8.48 and 2017 sewer rate is \$9.42 per 1000 gallons. Monthly water and sewer service charges are \$3.00 respectively. The street lighting fee is charged as a city fee of \$2/month and collected on MN Power bills. Rates are determined by calculating the amount of funding needed to cover operations, depreciation, and capital costs. Rate increases must be approved by the Hermantown Utility Commission and the Hermantown City Council. Water and Sewer rates increased in 2017.



*2016 and 2017 are based on budgeted revenues.

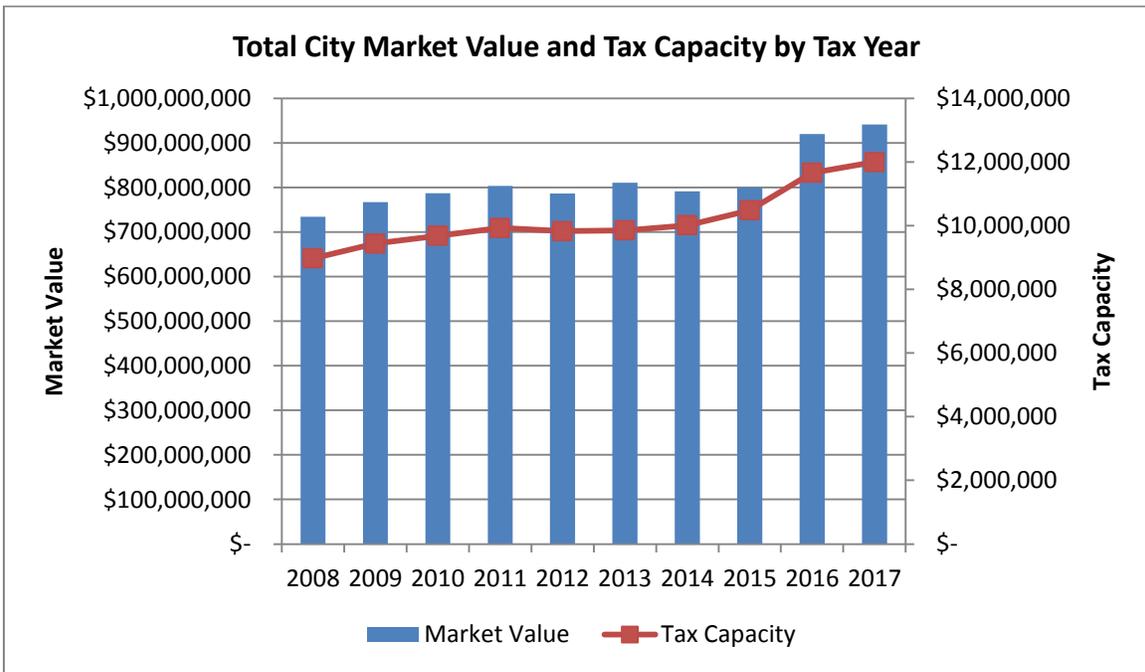
Other Financing Sources – Other Financing Sources for all budgeted funds is \$1,929,141 or 14 percent of revenue. This category accounts for transfers in from other funds, such as the Sales Tax Fund and Utility funds to the Debt Service to make bond payments.

Trends: Most of these transfers are calculated based on principal and interest debt service payments.

Tax Information

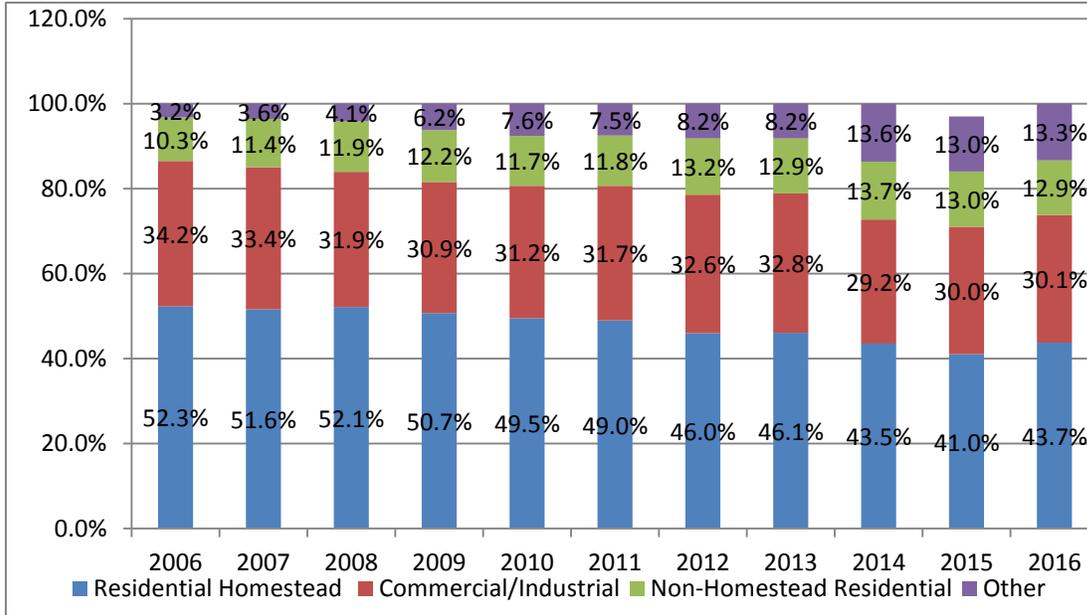
Tax Base

Residential market values and commercial properties used to calculate 2017 taxes increased. There was an estimated increase of 2.8% of taxable net tax capacity. Market values are not used directly to calculate tax. Market values and state mandated classification rates are used only to distribute the dollar amount of levy requested.

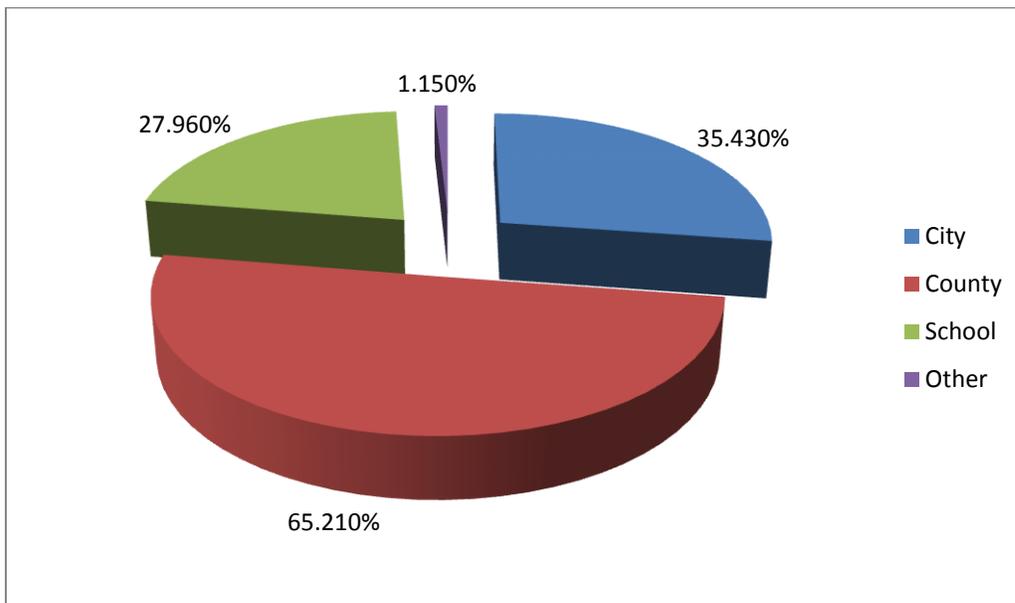


Total City Tax Capacity Comparison

The largest 3 categories of tax capacity for the City are Residential Homestead Property, Commercial/Industrial Property, and Non-Homestead Residential Property.



Taxes (Payable 2016)



This graph illustrates the total tax as shared by the taxing jurisdictions. Only 35.43 percent of the total tax was levied for City activities in 2016.

Estimated City Taxes Payable in 2017

The following table lists the estimated city taxes payable in 2017 for various home values. These figures do not include a market value exclusion that the state utilizes to reduce residential property taxes.

Home Market Value	2016 Payable City Taxes	2017 Payable City Taxes
\$ 100,000	\$ 356.30	\$ 394.77
150,000	\$ 534.45	\$ 592.16
200,000	\$ 712.60	\$ 789.54
250,000	\$ 890.75	\$ 986.93
300,000	\$ 1,068.90	\$ 1,184.31
350,000	\$ 1,247.05	\$ 1,381.70
400,000	\$ 1,425.20	\$ 1,579.08
450,000	\$ 1,603.35	\$ 1,776.47
500,000	\$ 1,781.50	\$ 1,973.85

Where Does Our Property Tax Dollars Go?

A \$217,400 home generates \$858 in annual property taxes:
This comes to \$71 per month for 2017.



16 Cents General Government

63 Cents Public Safety

13 Cents Public Works

6 Cents Park

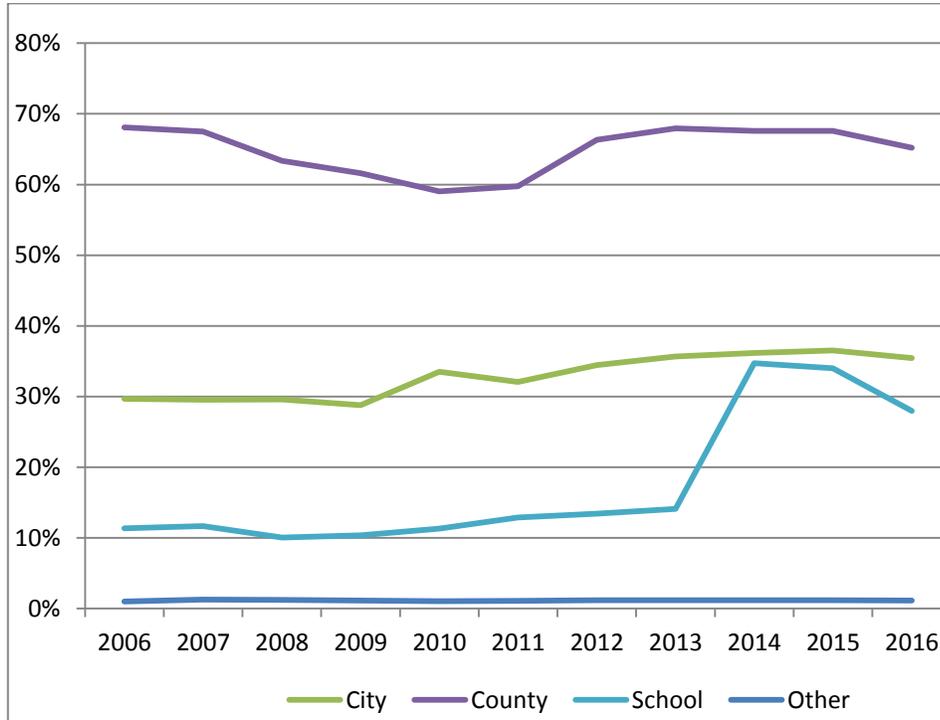
2 Cents Debt Service

Estimated Cost of City Services \$217,400 Home in 2017

Actual Cost of City Services Pay 2017 Property Tax Support for \$217,400				
City Service Category	2017 Budget	Percent of Levy	Amount of Levy	Monthly Cost
General Government Council, Ordinances, Mayor, Elections, Administration & Finance, City Attorney, Planning & Zoning, Health Insurance Consultant, City Hall Building Maintenance, Insurance, Cemetery	\$807,959	15.5%	\$133	\$11
Public Safety Police Administration, Fire Administration, Firehall #1, Firehall #2, Firehall #3, Building Inspection, Poundmaster	\$3,284,438	62.8%	\$539	\$44
Public Works Street Department, City Engineer, City Garage, Environmental	\$681,192	13.0%	\$112	\$9
Park Parks, Community Building	\$326,700	6.2%	\$54	\$4
Debt Service Certificate of Indebtedness, Public Works Facility/Salt Storage Bldg.	\$128,297	2.5%	\$21	\$2
Totals		100%	\$858	\$71

Tax Rate Analysis

The graph illustrates the changes in the property tax rate of the City, County, School and other.



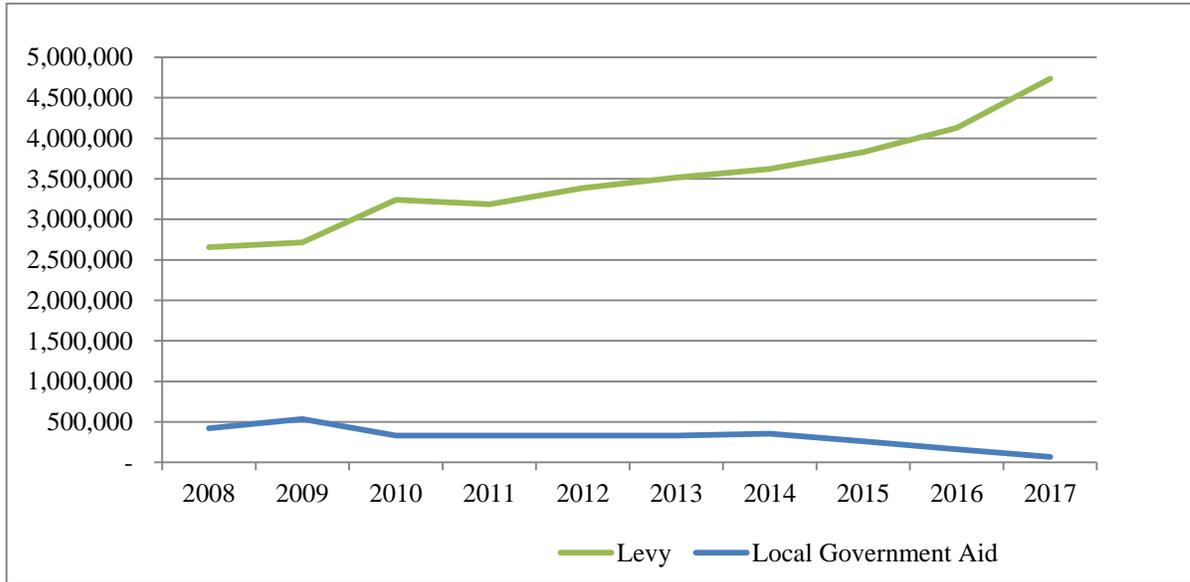
Levy Components

The overall property tax levy is comprised of different levies to pay for different activities of the city. The dollars levied in 2017 are illustrated in the following table:

Levy for General Fund	\$ 4,471,331
2016 Motor Grader	49,547
Debt Service 2009A GO Bond	78,750
Abatement Fleet Farm	60,000
Hermantown Economic Development Authority	\$ 76,000

Tax Levy Changes

The city tax levy has fluctuated recently as a result of fast growth, multiple changes in state aid, and increasing service demands. The following graph illustrates the changes in levy and local government aid.



2016 Property Tax Comparison of Cities within St Louis County and Cloquet

Total Tax (City, County, School, Other) based on a \$217,400 Value home in 2016:

St. Louis County:

Hermantown	\$2,803
Proctor	\$3,280
Duluth	\$3,016
Virginia	\$3,516
Hibbing	\$3,286

Carlton County:

Cloquet	\$4,016
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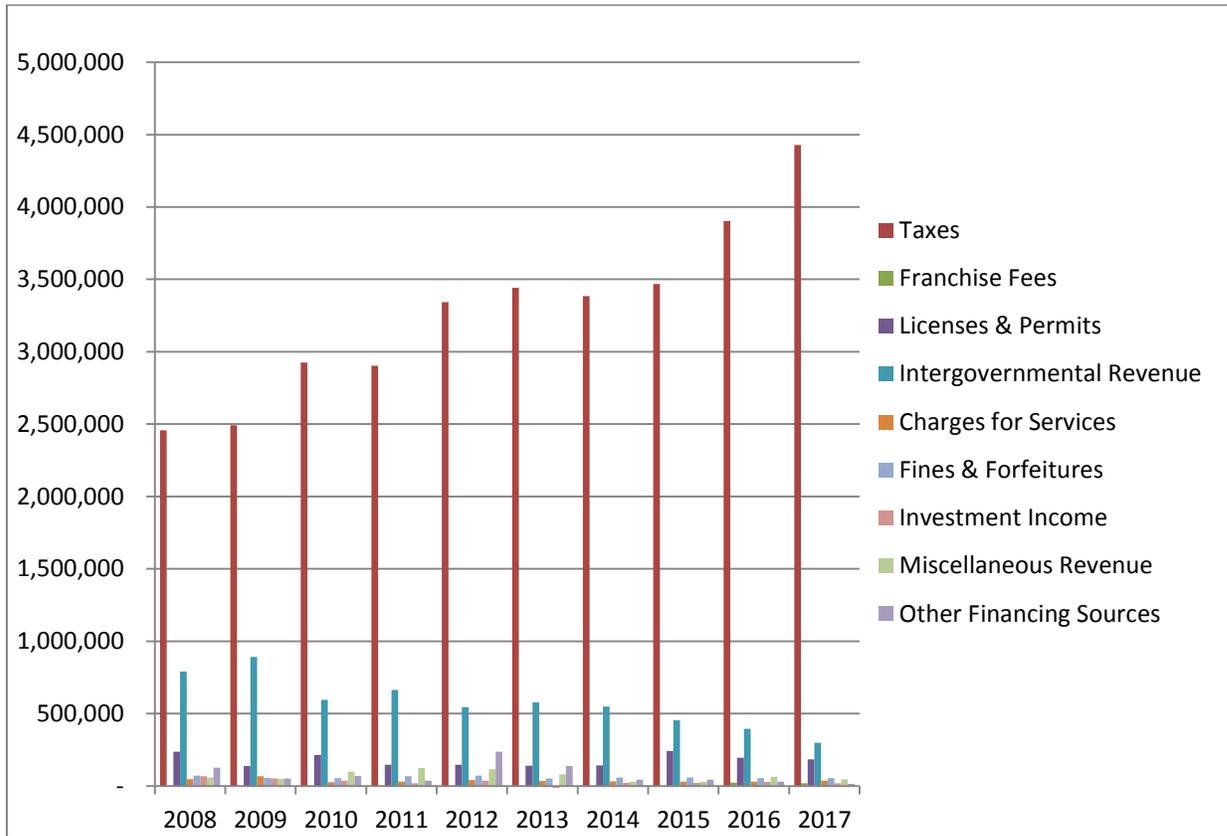
Source of information found at: <http://www.lmc.org/page/1/property-tax-calc-iframe.jsp>

General Fund Summaries – Fund 101

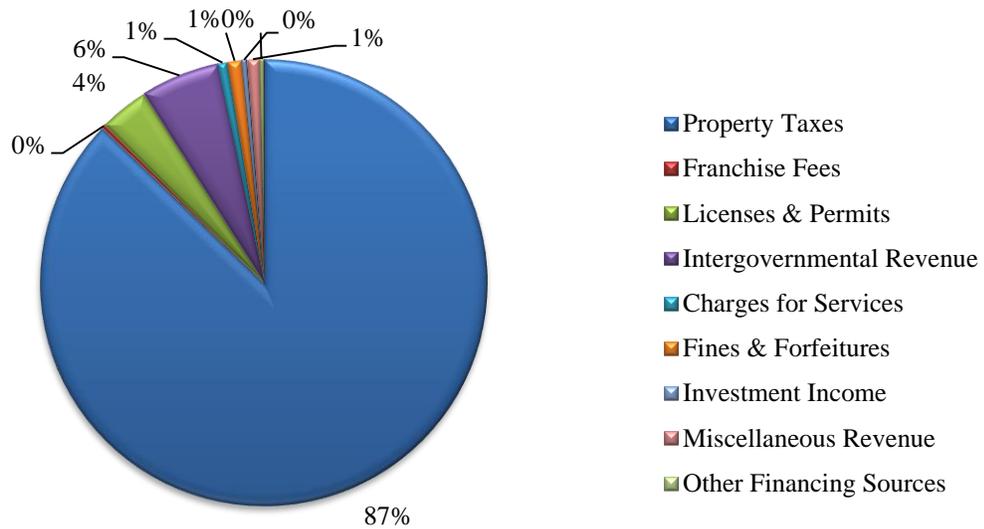
The General Fund is established to account for the revenues and expenditures necessary to carry out basic governmental activities of the City such as general government, public safety, public works, and parks and recreation. Revenue is recorded by source: i.e., general property taxes, licenses and permits, fines & forfeits, charges for service, etc. General Fund expenditures are made primarily for current day-to-day operations and operating equipment and are recorded by major functional classifications and by operating departments. This fund accounts for all financial transactions not reported in another fund.

2017 General Fund Revenues

The general fund revenue sources have changed in recent years as a result of legislative actions. The following graph illustrates the change in general fund revenues (2016 & 2017 are based on budgeted revenues):



The following chart shows the 2017 general fund budgeted revenues by source:



2017 General Fund Revenue Summary

<u>Source</u>	<u>Amount</u>	
Property Taxes	\$ 4,429,658	87%
Franchise Fee	18,000	0%
Licenses & Permits	184,000	4%
Intergovernmental Revenue	298,113	6%
Charges for Services	36,759	1%
Fines & Forfeitures	53,200	1%
Investment Income	19,500	0%
Miscellaneous Revenue	46,059	1%
Other Financing Sources	15,000	0%
Total	\$ 5,100,289	

2017 General Fund Revenue Sources - Detail

Property Taxes/Franchise - 310000

310100 Current Property Taxes	4,383,658
310200 Delinquent Property Taxes	46,000
318100 Franchise Fees	16,000
319200 Forfeited Property Taxes	<u>2,000</u>

Subtotal – Property Taxes & Franchise Fee 4,447,658

Licenses & Permits– 320000

321100 Beer Licenses	3,000
321110 On-Sale Liquor Licenses	27,200
321120 Off-Sale Liquor Licenses	450
321140 Sunday Licenses	2,200
321150 Dance Permits	1,000
321800 Contractors Licenses/Permits	4,100
321900 Tobacco Licenses	6,000
321950 Fireworks Permits	650
321990 Other Licenses & Permits	3,000
322100 Building Permits	110,000
322110 Zoning Fees	11,000
322120 SWPP Fees	2,000
322121 Erosion & Sediment Control	4,000
322126 Wetland Permits	1,000
322130 Property Split Fees	2,000
322400 Dog Licenses	1,600
322900 Handgun/Bow Permits	<u>4,800</u>

Subtotal – Licenses & Permits 184,000

Intergovernmental – 330000

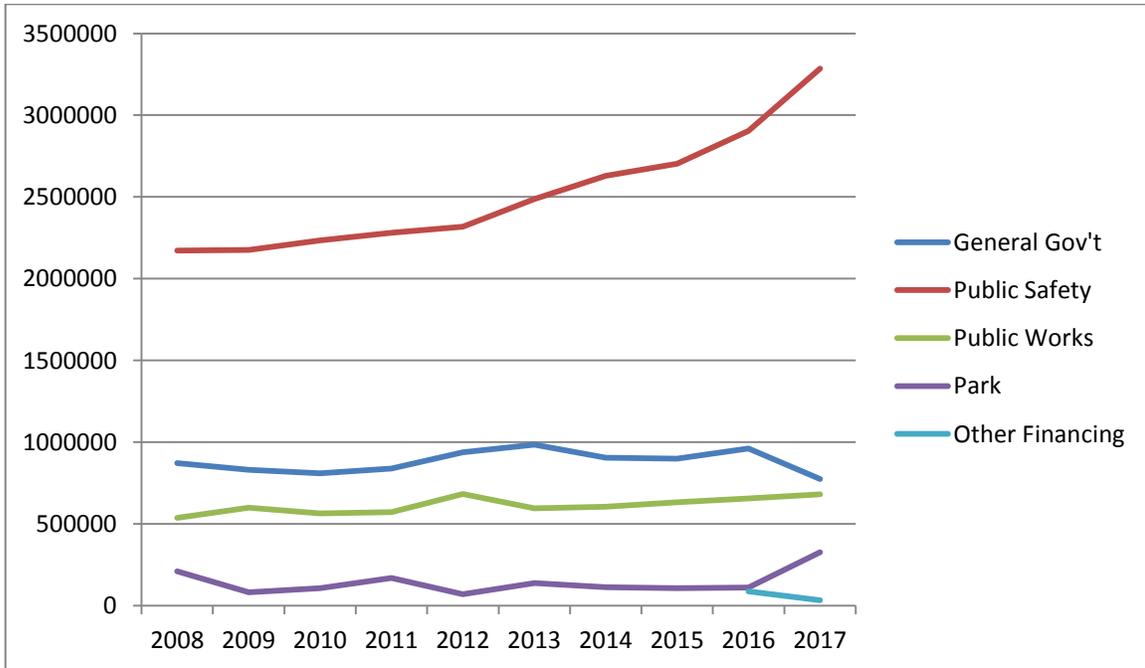
331998 Police Overtime Reimb	25,000
331999 Other Federal Grants/Aid	4,000
334010 Local Government Aid	66,001
334160 Police Training Reimbursement	4,700
334180 MSAS Maintenance Allocation	65,000
334200 State 2% Fire Insurance/Fire Relief	35,000
334210 State Police Aid	95,000
334999 Other State Grants & Aids	<u>3,412</u>

Subtotal – Intergovernmental 298,113

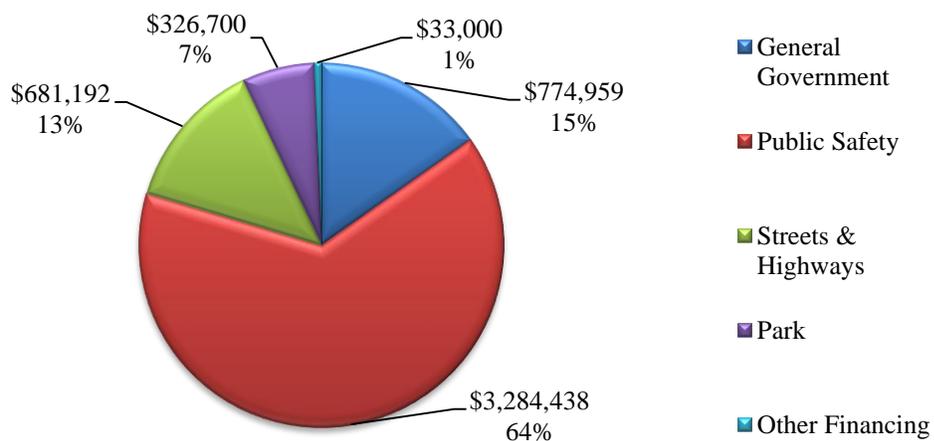
<u>Charges for Services – 340000</u>		
341010 Building Rentals	7,000	
341015 Community Building	17,249	
341030 Zoning & Subdivision	1,000	
342010 Police Services	10,000	
342030 Photocopies Police	510	
349400 Cemetery Burial	<u>1,000</u>	
Subtotal – Charges for Services		36,759
<u>Fines & Forfeits – 350000</u>		
351000 Impound & Towing Charges	200	
351010 Court Fines	53,000	
Subtotal – Fines & Forfeits		53,200
<u>Investment Income – 362100 & 362110</u>		
362100 Investment Interest	16,000	
362110 Interest	3,500	
Subtotal – Investment Income		19,500
<u>Miscellaneous – 360000</u>		
362200 Park Field Rental Fees	9,600	
362210 Park Rental Fees	200	
362250 City Property Lease	1,395	
362255 Lightning Drive Tower Lease	12,864	
362350 Development Agreement	7,500	
362400 911 Signs	2,500	
362410 Insurance Recoveries	10,000	
362990 Miscellaneous Revenue	<u>2,000</u>	
Subtotal – Miscellaneous		46,059
<u>Other Financing Sources - 390000</u>		
392010 Transfers In	<u>15,000</u>	
Subtotal – Other Financing Sources		<u>15,000</u>
Total All General Fund Revenues		<u>5,100,289</u>

2017 General Fund Expenditures

The city provides many services to its citizens. The following graphs show the general fund expenditures by function (2016 & 2017 are based on budgeted expenditures):



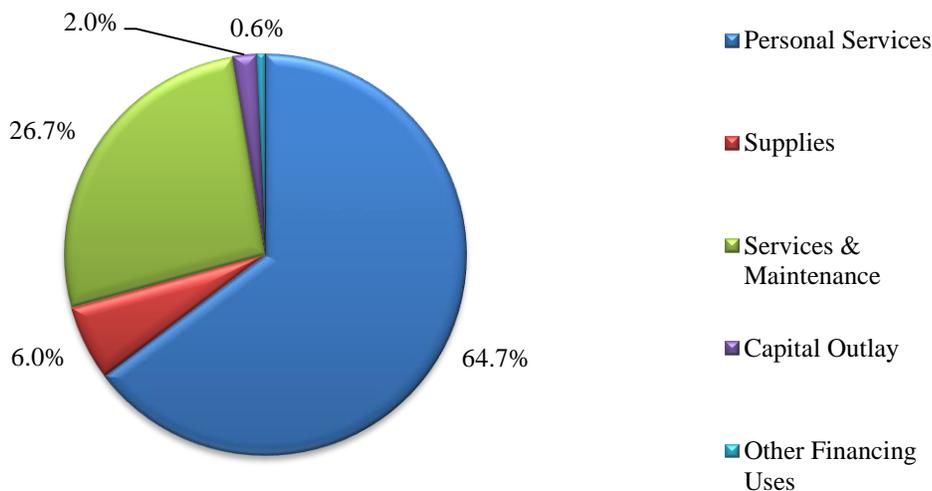
The following chart shows the 2017 General Fund Expenditures by Function:



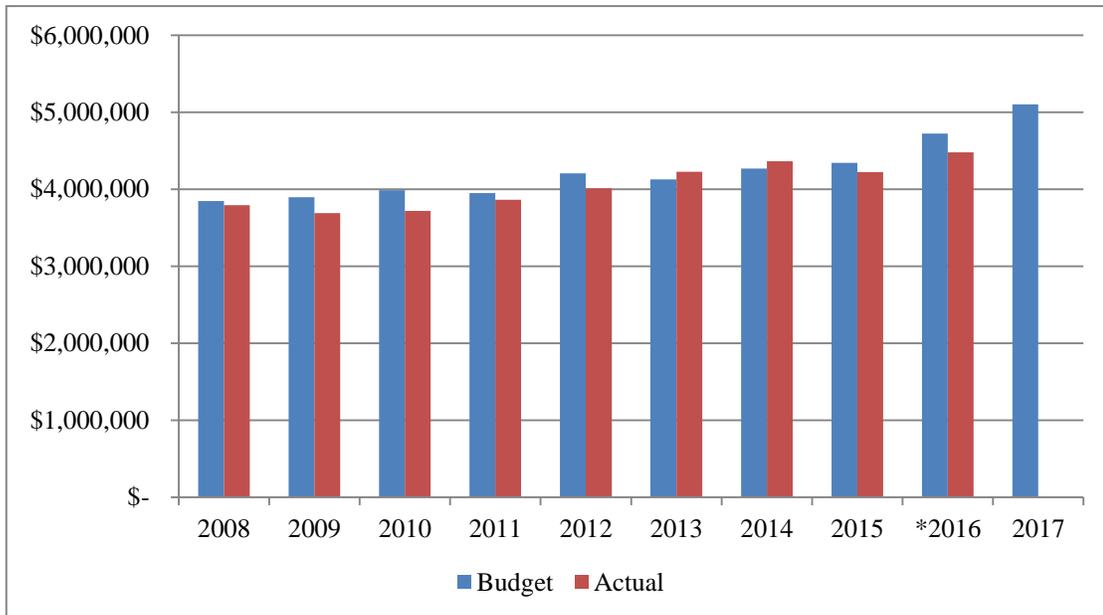
General Fund Expenditures – Detail by Category

<u>Department</u>	<u>Personal</u>		<u>Services & Maintenance</u>	<u>Capital Outlay</u>	<u>Other Financing</u>		<u>Total</u>
	<u>Services</u>	<u>Supplies</u>			<u>Uses</u>		
Council	32,689	25	9,320	-	-	-	42,034
Legal Notices	-	-	3,500	-	-	-	3,500
Mayor	10,714	-	1,717	-	-	-	12,431
Elections	2,940	-	1,225	-	-	-	4,165
Administration & Finance	370,846	5,360	76,999	-	-	-	453,205
Attorney	-	-	50,000	-	-	-	50,000
Comm. Dev./Planning & Zoning	185,307	1,000	58,740	-	-	-	245,047
City Hall & Police Bldg Maint.	69,834	11,250	89,395	-	-	-	170,479
Police	2,087,828	84,100	223,293	99,540	-	-	2,494,761
Fire	39,296	-	519,850	-	-	-	559,146
Fire Hall 1	18,284	-	47,960	-	-	-	66,244
Fire Hall 2 & 3	-	1,950	14,964	-	-	-	16,914
Building Inspector	134,487	1,650	8,636	-	-	-	144,773
Poundmaster	-	-	2,600	-	-	-	2,600
Street	286,595	140,759	166,732	-	-	-	594,086
City Engineer	-	-	29,000	-	-	-	29,000
Garage Building Maintenance	17,847	25,630	14,629	-	-	-	58,106
Parks	32,493	33,200	12,560	-	-	-	78,253
Community Building	9,141	1,700	14,618	-	-	-	25,459
Cemetery	3,400	-	-	-	-	-	3,400
Insurance	-	-	13,686	-	-	-	13,686
Other	-	-	-	-	-	33,000	33,000
Totals	3,301,701	306,624	1,359,424	99,540	33,000		5,100,289
	64.7%	6.0%	26.7%	2.0%	0.6%		

The following chart shows the 2017 general fund expenditures by category:



Trend in Spending Budgeted Expenditures – General Fund



***2016 Expenses through 11/14/2016**

Capital Expenditures

The City of Hermantown's Capital Budget includes capital improvement projects to City infrastructure, such as facility enhancements, upgrades to parks and trails and improvements to streets and utilities. Also included in the Capital Budget are capital equipment such as public safety vehicles, public safety equipment and technology.

The City's Capital Budget addresses current and future improvements to the City's infrastructure, facilities, and properties by combining elements of both current year budgeting and the five year forecast. The purpose of the Capital Budget is to first prioritize and fund the most urgent needs in the coming year's budget. Second, to identify future capital needs with sufficient lead time to ensure proper planning and implementation. This section presents a summary of the Projects and Funding Sources by Department, which is also included in our full Capital Improvement Plan (CIP), prepared as a separate document.

Capital Expenditures are defined as a project/asset with a minimum cost of \$20,000 and a life expectancy of over 2 years. Capital assets are depreciated using the straight-line method. The capital asset form has a section to indicate if there are ongoing maintenance expenses in the future as a result of the CIP request.

The Capital Expenditures in the Adopted 2017 Budget amounts to \$674,000. The following capital outlay items over \$20,000 have been budgeted in all the funds for 2017.

Police

Purchase of two police squad card: Budget \$82,000. This is a recurring expense to replace two patrol vehicles due to the high mileage and demand on the vehicles.

Included in 2017 is a computer server. Budget \$20,000 This is a non-recurring expense.

These items are budgeted in the General Fund.

Park

Money was budgeted for an addition field for Girls Softball. Budget \$300,000. This is a non-recurring expense.

HEDA

A Hermantown Marketplace Sign will be placed on the corner of Maple Grove Rd and Haines Rd. Budget \$25,000. This is a non-recurring expense.

Water/Sewer

A new Track Excavator which will be split between Water and Sewer Funds.
Total Budget: \$175,000. This is a non-recurring expense.

Retro-fit Lift Station. Budget \$35,000. This is a non-recurring expense.

Street Light

The City will replace existing at the Government Services building and surrounding grounds with LED lighting, greatly reducing yearly costs including a possible rebate from MN Power.
Budget \$37,000. This is a non-recurring expense.

2017 Budgeted Capital Expenditures over \$20,000

Fund/Activity	Purpose	Amount
General Fund		
Police	Two squad cars	\$ 82,000
	Computer Server	\$ 20,000
	Total	<u>\$ 102,000</u>
Special Revenue Fund		
Park Fund	Softball Fields	\$ 300,000
	Total	<u>\$ 300,000</u>
HEDA	Hermantown Marketplace Signs	\$ 25,000
	Total	<u>\$ 25,000</u>
Enterprise Funds		
Water Fund	Truck Excavator	\$ 87,500
	Total	<u>\$ 87,500</u>
Sewer Fund	Truck Excavator	\$ 87,500
	Lift Stations	\$ 35,000
	Total	<u>\$ 122,500</u>
Street Light Fund	Replace LED Lighting	\$ 37,000
	Total	<u>\$ 37,000</u>
	Total All Funds	<u><u>\$ 674,000</u></u>

Five Year Plan for Municipal State Aid – MSA Roads

The City evaluates each Municipal State Aid (MSA) project to determine whether a utility infrastructure project could coincide with the road construction or reconstruction project. These do not affect operating budget other than savings in the street maintenance budgets.

2017 - Market Street and Loberg Road rehabilitation - will include curb and gutter replacement, partial storm replacement and a new sidewalk along Loberg Road. Funding for this project is through the City of Hermantown MSAS account and the City of Hermantown Utility Funds. There is \$500,000 in State Aid funding for this project.

Year	Project	Project Description	Total Cost	Federal Share	MSA Share	Local Share	MSA Allocation	Fund Balance	Date
2016		allocation					\$580,711.00	\$ 947,357.94	1/15/2016
2016	Stebner Road Hwy 53 to Maple Grove SP 202-103-009	Total reconstruction 1.40 miles	\$ 2,500,000.00	\$ 1,600,000.00	\$ 340,814.21			\$ 606,543.73	
2016	SP 202-103-009	Engineering Costs			\$ 284,547.88			\$ 321,996	
2016	Fiber Optic Upgrade on Signals				\$ 50,000.00			\$ 271,996	
2016	Rose Road - Payment to SLC				\$ 170,195.30			\$ 101,800.55	
2017		allocation					\$554,814.00	\$ 656,614.55	1/15/2017
	Market Street and Loberg Road Haines Rd to Walmart Entrance	Reconditioning 0.50 miles	\$ 500,000.00		\$ 500,000.00			\$ 156,614.55	
2018		allocation					\$580,000.00	\$ 736,614.55	1/15/2018
2018	Hermantown Rd Stebner Rd to Engwalls	Reconditioning 0.85 Miles	\$ 500,000.00		\$ 500,000.00			\$ 236,614.55	
2018	Chip Seal/Fog Seal Various Streets		\$ 50,000.00		\$ 50,000.00			\$ 186,614.55	
2019		allocation					\$580,000.00	\$ 766,614.55	1/15/2019
	Ugstad Road Reconditioning Hwy 53 to Arrowhead	Reconditioning 1.0 miles	\$ 750,000.00		\$ 750,000.00			\$ 16,614.55	
2020		allocation					\$580,000.00	\$ 596,614.55	1/15/2020
	Ugstad Road and Roosevelt Drive Intersection Corrections	Reconstruction	\$ 150,000.00		\$ 150,000.00			\$ 446,614.55	

Capital Improvement Plan – (CIP)

The Capital Improvement Plan (CIP) is a schedule for capital requests and a plan to finance those capital expenditures. The City Administrator and the Finance Director meet with each Department Head and/or consultant to discuss CIP requests after a Capital Outlay Request form is completed for each request.

2017 Proposed Improvements

The 2017 Capital Improvement Plan outlines total proposed projects in the amount of \$19,274,000 funded through various sources including bonding, Federal and State Grants, General Fund, Park Fund, Street Light Fund and Water and Sewer Funds.

In addition to the projects listed in Capital Expenditures of \$674,000 the City anticipates two additional projects to begin in 2017, which will not affect the City's General operating budget.

Essentia Health and Wellness Center

Included in the Capital Budget is \$17 million for the Essential Health & Wellness Center. Funding sources make up the following:

Essentia Health	\$2 million
Community/YMCA-led Fundraising Campaign	\$2.5 million
City of Hermantown and St. Louis County	\$4.5 million
State Bonding	\$8 million

The City received voter approval on November 8th, 2016 to fund its portion of the project using current sales tax revenue. The City needs Legislative approval of this use for sales tax. That approval was in the 2016 State Tax Bill, but the overall tax bill was vetoed. The City anticipates that Legislative approval will be received in the 2017 Legislative session.

Fire Halls #2 and #3

Also included in the Capital Budget is \$1.6 million for construction on Fire Halls #2 and #3 located at:

Fire Hall #2 - 4900 Morris Thomas Rd
Fire Hall #3 – 4494 Midway Rd

An independent study was done in 2016 to determine if the needed repairs should be done or if it would be more cost effective to construct new buildings. It was determined that the construction of new buildings on the existing lots is a better alternative than repairing existing buildings. This will be funded with a new bond issuance.

Capital Improvement Plan Summary

City of Hermantown, Minnesota
Capital Improvement Plan
 2017 thru 2021

PROJECTS & FUNDING SOURCES BY DEPARTMENT

Department	Project#	Priority	2017	2018	2019	2020	2021	Total
Administration								
Essentia Health & Wellness Center	ADM-17-5	5	17,000,000					17,000,000
<i>Other Grants</i>			5,500,000					5,500,000
<i>Sales Tax</i>			3,500,000					3,500,000
<i>State Grants</i>			8,000,000					8,000,000
Develop Regional Health and Wellness Center in coordination with YMCA and Essentia Health								
Administration Total			17,000,000					17,000,000
City Hall								
Exterior Lighting	CH-17-001	3	37,000					37,000
<i>Street Light Fund</i>			37,000					37,000
replace old lighting with LED lighting								
Training Room Carpet	CH-19-001	3			10,000			10,000
<i>General Fund</i>					10,000			10,000
Carpet worn out in training center								
City Hall Total			37,000		10,000			47,000
Community Development								
Hermantown Marketplace Signs	CD-16-1	2	25,000					25,000
<i>HEDA</i>			25,000					25,000
Hermantown Marketplace- Monument Signs								
Munger Trail Connector	CD-18-1	3		1,200,000				1,200,000
<i>Park Fund</i>				240,000				240,000
<i>State Grants</i>				960,000				960,000
Munger Trail Connector								
Keene Creek Bike	CD-19-1	3			50,000			50,000
<i>Park Fund</i>					25,000			25,000
<i>State Grants</i>					25,000			25,000
Keene Creek Park Mountain Bike Trailhead								
Community Development Total			25,000	1,200,000	50,000			1,275,000
Fire Department								
Fire Hall #2	FH#2	5	800,000					800,000
<i>Bond</i>			800,000					800,000
New Fire Hall construction of new building on existing lot								
Fire Hall #3	FH#3	5	800,000					800,000
<i>Bond</i>			800,000					800,000
New Fire Hall construction on existing land								
Fire Department Total			1,600,000					1,600,000

Department	Project#	Priority	2017	2018	2019	2020	2021	Total
Parks and Recreation								
2018 Zero Turn Lawnmower	PK-17-001	2		10,000				10,000
<i>General Fund</i>				10,000				10,000
2018 zero turn lawn mower								
Softball Fields	PK-17-002	4	300,000					300,000
<i>Park Fund</i>			300,000					300,000
Additional softball fields								
Parks and Recreation Total			300,000	10,000				310,000
Police								
HPD Garage Floors	PO-17-002	3			8,000			8,000
<i>General Fund</i>					8,000			8,000
Epoxy floor sealant in HPD garages and the rear hallways								
Sergeants Office Renovation	PO-17-003	2			8,000			8,000
<i>General Fund</i>					8,000			8,000
Replace work stations in Sergeants offices. Instead of one work station per office, we will change them to house two employees								
Squads	PO-17-005	1	82,000	82,000	82,000	83,000	84,000	413,000
<i>General Fund</i>			82,000	82,000	82,000	83,000	84,000	413,000
Squad car replacement. Two squads each year.								
Computer Server	PO-17-006	3	20,000	20,000				40,000
<i>General Fund</i>			20,000	20,000				40,000
Computer server has not been upgraded since 1997								
Police Total			102,000	102,000	98,000	83,000	84,000	469,000
Public Works								
Boiler backup installation	PW-16-005	2		26,000				26,000
<i>General Fund</i>				8,666				8,666
<i>Sewer Fund</i>				8,667				8,667
<i>Water Fund</i>				8,667				8,667
backup boiler installation								
Track Excavator	PW-17-001	1	175,000					175,000
<i>Sewer Fund</i>			87,500					87,500
<i>Water Fund</i>			87,500					87,500
135 ZTS Class Excavator with Hydraulic Thumb and Quick Detach Coupler								
2017 3/4 Ton Pickup Truck	PW-17-002	2			32,000			32,000
<i>General Fund</i>					32,000			32,000
replace old utility truck								
Freightliner Dump Truck	PW-18-001	2		233,500				233,500
<i>General Fund</i>				233,500				233,500
Trade in 2001 Freightliner Dump Truck for new one								
Overhead Door of PW Shop	PW-18-002	2		105,000				105,000
<i>General Fund</i>				35,000				35,000
<i>Sewer Fund</i>				35,000				35,000
<i>Water Fund</i>				35,000				35,000
Installation of 14'X14" Overhead door into North wall of Public Works shop								
ATV	PW-19-002	2			15,000			15,000
<i>Street Light Fund</i>					15,000			15,000
ATV/Gator style ATV								
2020 Utility Truck	PW-20-001	2				80,000		80,000
<i>Sewer Fund</i>						40,000		40,000
<i>Water Fund</i>						40,000		40,000
replacement of existing truck H22								

Department	Project#	Priority	2017	2018	2019	2020	2021	Total
2020 12' Big Mower <i>General Fund</i> replacement of existing John Deere 12' mower	PW-20-002	2				70,000 70,000		70,000 70,000
2021 36-38,000 lb Wheel Loader <i>General Fund</i> addition of a 2nd wheel loader to our fleet of equipment 36-38,000 lb	PW-21-001	2					200,000 200,000	200,000 200,000
Public Works Total			175,000	364,500	47,000	150,000	200,000	936,500
Sewer Department								
Lift Stations <i>Sewer Fund</i> retro fit 2 lift stations	SW-17-1	2	35,000 35,000	35,000 35,000				70,000 70,000
Sewer Department Total			35,000	35,000				70,000
Water Department								
Water Tower painting <i>Water Fund</i> painting of 2001 water tower	WT	2		130,000 130,000				130,000 130,000
Water Department Total				130,000				130,000
GRAND TOTAL			19,274,000	1,841,500	205,000	233,000	284,000	21,837,500

City Debt Overview

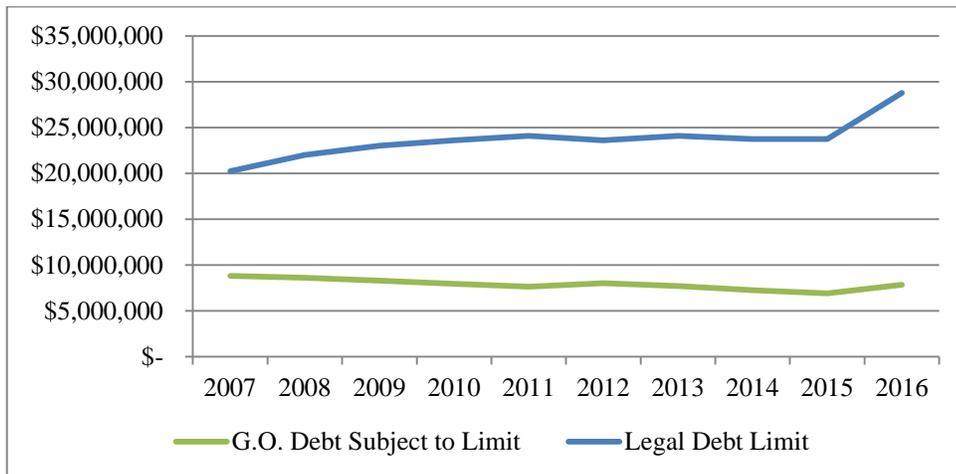
Debt Margin

All Minnesota municipalities (counties, cities, towns and school district) are subject to statutory “net debt” limitations under the provisions of Minnesota Statutes, Section 475.53. Under this provision, the legal debt limit is 3% of the assessor’s market value of the municipalities’ tax base. Hermantown’s taxable market value for tax year 2016 is estimated to be \$959,213,400. The general obligation debt subject to the limitation may be offset by the amounts set aside for repaying general obligation bonds. This limitation provides reasonable assurance of the municipality’s ability to pay its obligations. The graph below shows ten years of general obligation debt subject to the limit compared to the legal debt limit. The City’s debt has increased over the last 10 years.

2017

General Obligation Debt Limit	\$ 28,776,402
Hermantown's Debt Subject to the Limit (Estimate)	<u>7,862,783</u>
Debt Margin	<u>\$ 20,913,619</u>

Total Debt Outstanding and Legal Debt Limit



Debt Issuance and Refinancing

The City of Hermantown maintains a bond rating of Standard & Poor's AA for the City's 2014A, 2016A, and 2016B bonds. In addition, a bond rating of Standard & Poor's AA- rating assigned to the City's 2010A, 2012A and 2012B General Obligation Bonds. Bond ratings are one indicator of a municipalities' financial health and indicates the risk associated with the repaying of debt. The bond rating has a direct impact on the interest rates the city receives on the debt it issues.

Debt Service Direct Tax Levy (Next 5 Years)

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Equipment Debt - Certificate of Indebtedness	49,547	49,547	49,547	49,547	49,547
Debt Service		70,000	70,000	70,000	70,000
Public Works Facility/Salt Storage Building (2010-2030)	75,000	75,000	75,000	75,000	75,000
Total Debt Tax Levy	124,547	194,547	194,547	194,547	194,547

Existing Debt Overview

	Fund	Date of Issuance	Date of Maturity	Interest Rate	12/31/2016	Principal Due 2017	Interest Due 2017	Outstanding Principal 2017
Special Assessment Bonds								
2009A G.O. Bond (2016A)	318	Dec - 2009	2/1/2030	1.56%	3,860,000	300,000	138,656	3,560,000
2010A G.O. Bond	319	Nov - 2010	2/1/2031	2.74%	2,760,000	315,000	74,319	2,445,000
2012A G.O. Refunding Bond	320	July - 2012	2/1/2026	1.93%	1,665,000	150,000	29,798	1,515,000
2012B G.O. Improvement Bond	321	Oct - 2012	2/1/2034	2.58%	2,885,000	140,000	62,094	2,745,000
2014A G.O. Refunding	322	Dec - 2014	2/1/2028	2.21%	1,985,000	215,000	46,050	1,770,000
Other Debt								
2006A Public Project Rev. Bond (2016B)	315	Dec - 2006	2/1/2027	1.35%	6,470,000	475,000	205,054	5,995,000

Debt Issuance Details

General Obligation Bonds, Series 2009A (Will be 2016A) (Fund 318) – These bonds were issued in the original amount of \$5,515,000 for the following purposes: to refund the City's General Obligation Improvement Bonds, Series 2003A (Fund 312); to fund sewer improvements Midway Road (Seville to Hwy 194) and Hermantown Road (Haines Road to Arthur Lane); and to finance the acquisition of the Public Works Building and Salt/Storage Facility. An advance refunding was done on these bonds in 2016. These bonds will be called February 1, 2018. Revenue source: Special assessments, property tax, local sales tax, water and sewer transfers.

General Obligation Bonds, Series 2010A (Fund 319) – These bonds were issued in the original amount of \$3,955,000 for the following purposes: to refund the City’s General Obligation Utility Revenue Improvement Bonds, Series 2002 (Fund 311); and to fund sewer improvements Ugstad Road (Maple Grove to Hermantown) and Morris Thomas Road (From Getchell Road West Approx. 1,000 Feet). Revenue source: Special assessments, local sales tax and sewer transfer.

General Obligation Bonds, Series 2012A (Fund 320) – These bonds were issued in the original amount of \$2,500,000 to refund the General Obligation Improvement Refunding Bonds, Series 2003B (Fund 313) and the General Obligation Bonds, Series 2005 (Fund 314). The General Obligation Bonds, Series 2005 was refunded on February 1, 2013. Revenue source: Local sales tax, special assessments and special deficiency fund transfer.

General Obligation Improvement Bonds, Series 2012B (Fund 321) - These bonds were issued in the original amount of \$3,155,000 to finance the following utility infrastructure projects: Miller Trunk Hwy Waterline (5454 Miller Trunk to Lindahl); Lavaque Road Sewerline (Alpine Drive to Highway 53); and Combined Sewer Improvement Projects: Hermantown Road (LaVaque Road to 4988 Hermantown Road), LaVaque Road (Thompson Road to Country Acres), Morris Thomas Road (LaVaque Road to 5161 Morris Thomas Road), 4988 Hermantown Road to Kenroy Road, and 5161 Morris Thomas Road to Birch Road. Revenue source: Special assessments and Sales tax.

General Obligation Bond, Series 2014A (Fund 322)- These bonds were issued in December 2014 in the amount of \$2,170,000, carrying interest rate of 2.207% to refund Series 2007A and to crossover refund 2007B for an interest cost savings.

Public Project Revenue Bonds, Series 2006A (Will be 2016B) (Fund 315)- These bonds were issued in December 2006 in the original amount of \$9,630,000, carry a net interest rate of 1.35% and mature in 2027 to finance new construction of an administrative services. In addition the bond was used to refund the Bond Series 1998(Police/Fire Building). In 2016 a refunding was done. The first payment on the new 2016B bonds will be in February 2017. Revenue source: Local sales tax.

Staffing

The City of Hermantown will not be making any changes in staffing levels for 2017.

2017 Full-Time Equivalent (FTE) Summary			
	2015 Actual	2016 Budget	2017 Budget
General Fund			
General Government			
Elections		0.12	
Administration & Finance	4.04	3.17	3.29
Community Development	1.25	2.00	2.00
City Hall Building Maintenance	0.65	0.65	0.65
Total General Government	5.94	5.94	5.94
Public Safety			
Police Administration	17.3	18.3	18
Firehall #1 Maintenance	0.21	0.21	0.21
Building Inspection	1.3	1	1
Total Public Safety	18.81	19.51	19.21
Streets & Highways			
Street Department	3.96	3.96	4.01
City Garage Maintenance	0.24	0.24	0.24
Total Streets & Highways	4.2	4.2	4.25
Parks	0.31	0.31	0.31
Community Building	0.1	0.1	0.1
Cemetery	0.04	0.04	0.04
Total General Fund	29.4	30.1	29.85
Special Revenue Funds			
City Sales Tax	0.25	1.24	1.24
Police Education	0.7	0	0
Cable TV	0.06	0.06	0.06
Total Special Revenue	1.01	1.3	1.3
Enterprise Funds			
Water Utility	3.51	3.51	3.51
Sewage Disposal	2.34	2.34	2.34
Total Enterprise	5.85	5.85	5.85
Grand Total FTE Employees	36.26	37.25	37.00

2016 Full-Time Equivalent (FTE) Summary by Position Count

	2015	2016	2017
	Actual	Budget	Budget
Administration & Finance			
City Administrator	1.00	1.00	1.00
Finance Director	1.00	1.00	1.00
City Clerk	1.00	1.00	1.00
Accountant	1.00	1.00	1.00
Account Clerk	1.00	1.00	1.00
Utility Billing Clerk	1.00	1.00	1.00
Community Development Director	1.00	1.00	1.00
Community Development GIS	0.25	0.25	1.00
Receptionist/Administrative Assistant	1.00	1.00	1.00
Total Administration & Finance	8.25	8.25	9.00
Public Safety			
Building Official	-	1.00	1.00
Police Chief	1.00	1.00	1.00
Deputy Police Chief	1.00	1.00	1.00
Sergeant	2.00	3.00	2.50
Investigator	2.00	1.00	1.50
DARE Officer	0.70	0.70	0.70
K9 Officer	1.00	1.00	2.00
Police Officer	7.30	7.30	6.30
Senior Secretary	1.00	1.00	1.00
Secretary	1.75	1.75	2.00
Total Police	17.75	18.75	19.00
Public Works			
City Superintendent	1.00	1.00	1.00
Street/Utility Maintenance Workers	7.00	7.00	7.00
Part Time Cleaning Person	0.25	0.25	0.50
Building/Park Maintenance	1.52	1.01	0.50
Total Streets & Highways	9.77	9.26	9.00
Total FTE's	35.77	36.26	37.00
Note: A majority of employees provide services to various cost centers and are allocated accordingly.			

General Fund

City Council - 411100

The cornerstone of city government in Minnesota is the elected mayor and city council. The City Council consists of the Mayor and four city councilors. The City Council usually meets on the first and third Monday of each month at 6:30 pm in City Hall. The city council supervises administrative officers, formulates policies and exercises city powers. As individuals, the council members have no administrative authority. Therefore, it is important each member works toward a team concept. The most important single responsibility of a council member is participation at council meetings. The City of Hermantown has various boards and commissions established to provide recommendations to the City Council and to decide upon items that are in a particular field.

Objective

- Adopt policies and ordinances consistent with Council’s position on growth, zoning and financial strategy
- Approve all major decisions
- Adopt the annual budget
- Conduct a planning session at the beginning of each odd numbered year

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
103-151	Salaries/Benefits	32,719	32,689	-0.1%
201-499	Supplies/Services	11,100	9,345	-15.8%
599	Contingency	1,000		-100.0%
	Total Expenditures	44,819	42,034	-6.2%

Budgetary Commentary

The 2017 City council operating budget is decreasing by 6.2% from 2016.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
103	Part-Time Employees-Regular	30,200	28,800	28,800
123	PERA Contributions-DCP	1,082	1,080	1,080
126	Stipend	140	1,680	1,680
128	Social Security	472	446	446
129	Medicare	442	417	417
133	Life Insurance	208	216	216
151	Workers Compensation	118	80	50
	Supplies & Services			
201	Office Supplies	-	50	25
315	School & Conference	570	700	500
321	Telephone	140		
331	Travel Expense	930	1,000	600
405	Computer Maintenance	128	75	95
434	Employee Recognition Program		75	25
451	Dues & Subscriptions	9,013	9,000	8,000
499	Miscellaneous		200	100
	Capital Outlay			
599	Contingency		1,000	
	Total Expenditures	43,443	44,819	42,034

Ordinance, Public Notice, and Proceedings - 411300

Minnesota statutes require publication of all board meetings, ordinance changes, or additions. Likewise, certain state compliance reports such as the annual financial report and budget summary report are required to be published by law.

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
310-355	Services	4,000	3,500	-12.5%
	Total Expenditures	4,000	3,500	-12.5%

Budgetary Commentary

The 2017 budget is decreasing 12.5% from 2016 due to a non-election year.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Services			
310	Recording/Filing Fees	-		-
351	Legal Notices Publishing	3,302	4,000	3,500
355	Codification Fees	-		
	Total Expenditures	3,302	4,000	3,500

Mayor - 413100

The Mayor is elected for a 4-year term. The Mayor is the presiding officer and regular member of the City Council, which entitles the Mayor to vote on all city council issues. The Mayor must have full knowledge of Robert's Rules of Order to conduct successful and organized meetings. As the head elected official of the City, the Mayor speaks officially for the community.

Objectives

- Serves as the city's representative before the state legislature, federal agencies, and other local government.
- Performs ceremonial duties on behalf of the community.
- Responsible for exerting leadership in city affairs.

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
103-151	Salaries/Benefits	10,714	10,714	0.0%
315-499	Services/Maintenance	1,833	1,717	-6.3%
	Total Expenditures	12,547	12,431	-0.9%

Budgetary Commentary

The 2017 Mayor operating budget is decreasing by .9 % from 2016.

Budget Detail

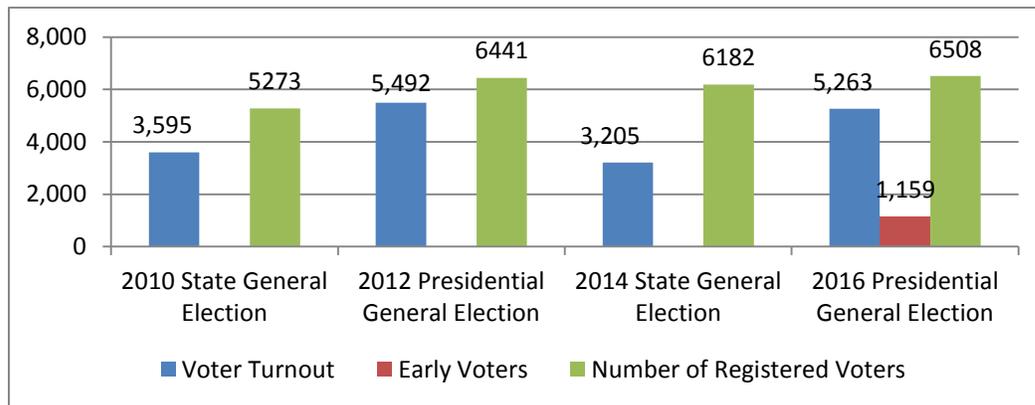
		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
103	Part-Time Employees-Regular	9,950	9,600	9,600
123	PERA Contributions - DCP	481	480	480
126	Stipend	35	420	420
128	Social Security		-	
129	Medicare	145	139	139
133	Life Insurance	52	54	54
151	Workers Compensation	31	21	21
	Services & Maintenance			
315	School & Conference	40	370	300
321	Telephone	35		
331	Travel Expense	233	350	250
405	Computer Maintenance	1,007	983	1,037
451	Dues & Subscriptions	10	30	30
499	Miscellaneous	96	100	100
540	Office Equip/Furnishings		-	
	Total Expenditures	12,115	12,547	12,431

Elections - 414100

There is no election in the year 2017.

Objectives

- Provide absentee ballots and enforce appropriate restrictions
- Register voters on Election Day with proof of residence
- Enforce voter qualifications
- Three Precincts are open for voting within the city from 7:00 am to 8:00 pm
- Absentee voting at Health Care Facilities and City Offices
- Publishing requirements for Primary & General elections
- Set up and tear down polling places
- Create an election handbook – for future election administration
- Stay current with all State election rules/obligations/Secretary of State's Office
- Additional hands on training will be conducted with all judges, with special emphasis on closing polls and paperwork needed for the County to expedite the closing process
- Get information from current election judges on future improvements in the set up process



Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
101-151	Salaries/Benefits	15,504	2,940	100.00%
201-499	Supplies/Services/Maintenance	4,710	1,225	-73.99%
	Total Expenditures	20,214	4,165	-79.40%

Budgetary Commentary

2017 is not an election year, therefore, salaries and supplies will decrease 79.4% from 2016.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
101	Full-Time Employees-Regular		4,880	1,938
105	Temporary Employees-Regular	(90)	7,560	
121	PERA Contributions-Coordinated		366	145
128	Social Security		303	120
129	Medicare		71	28
131	Health Insurance		2,187	687
133	Life Insurance		15	8
134	Disability Insurance		27	10
151	Workers Compensation	47	95	4
	Supplies/Services & Maintenance			
201	Office Supplies		500	
325	Postage		550	25
331	Travel Expense		185	
351	Legal Notices Publishing		640	
404	Equipment Maintenance	1,258	2,300	1,200
499	Miscellaneous		535	
	Total Expenditures	1,215	20,214	4,165

Administration & Finance - 415300

The City Administrator has the power and duty to enforce all city ordinances and resolutions, attend all meetings of the city council and participate in discussion, monitor all consulting and contract work and perform economic development activities for the city.

The City Administrator also appoints all other employees of the City and performs other duties as requested by the City Council.

Administrative Objectives

- Coordinate and direct the operations of the city government through the use of collaborative leadership and team work
- Recommend the appointment and removal of all city department heads
- Direct and submit the annual budget that is fiscally responsible
- Control and direct administrative affairs of the city
- Continue the process of preparing the City of Hermantown Handbook to serve as an administrative code, guide and procedure book for the City of Hermantown
- Recommend such measures deemed necessary for the welfare of the citizens
- Assist the City Council by conducting a planning session at the beginning of each odd numbered year

The Finance Department manages the financial affairs of the City. Responsibilities include: providing financial information to the City Administrator and City Council regarding the fiscal affairs of the City, the preparation of the annual financial statements and annual budget document, the 5-year Capital Improvement Plan (CIP), monitoring expenditures for compliance with the budget, preparing accurate and timely financial reports, administering the payroll, accounts payable, accounts receivable, utility billing, cashiering, purchasing functions, and overseeing the Management Information Systems.

Financial Objectives

- To record and process all financial transactions in a timely manner
- Provide meaningful and accurate financial and budget reports to Council and staff
- Continue to produce the budget document in a format that received GFOA's Distinguished Budget Document Presentation Award

The City Clerk acts as executive officer, keeps records of all council proceedings, handles all correspondence on behalf of the council, draws up agendas and executes any assignments given by the council. Performs duties associated with voter registration, election arrangements, official records, licenses, etc. as required by law. Serves as custodian of the city's seal and records, signs all official papers, posts and publishes notices, ordinances and resolutions as required. The clerk also files official documents and certifies local approval of special laws pertaining to the city, special assessments to the county auditor and plats of land within the city to the county recorder.

Authorized Personnel

The Administration & Finance Department has the following authorized personnel; City Administrator, Finance Director, City Clerk, Accountant, Account Clerk and Receptionist/Administrative Assistant.

FTE Equivalent Employees

3.29

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
101-151	Salaries/Benefits	343,324	370,846	8.0%
201-499	Supplies/Services & Maintenance	64,870	82,359	27.0%
540	Capital Outlay	-	-	0.0%
	Total Expenditures	408,194	453,205	11.0%

Budgetary Commentary

The 2017 Administrative/Finance budget is increasing by 11%.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
101	Full-Time Employees-Regular	267,133	245,012	249,439
102	Full-Time Employees-Overtime	132	-	
103	Part-Time Employees	10,066		
105	Temporary Employees	4,845	-	
111	Severance Pay	14,413		6,942
121	PERA Contributions-Coordinated	16,755	18,376	18,517
128	Social Security	16,989	15,191	15,465
129	Medicare	3,973	3,553	3,617
131	Health Insurance	54,819	57,150	74,408
133	Life Insurance	(25)	857	784
134	Disability Insurance	247	1,298	1,246
135	Unemployment Insurance	5,728	-	
151	Workers Compensation	1,780	1,887	428
	Supplies/Services & Maintenance			
201	Office Supplies	2,220	2,000	3,060
202	Printing Supplies	3,203	1,900	1,900
209	Computer Supplies	2,340	400	400
221	General Supplies	96	-	
301	Audit/Account Services	23,034	19,000	18,743
303	Banking Fees	7,428	3,500	500
308	Legal Fees	5,165		
309	Labor Relations Consulting	5,000		
310	Recording/Filing Fees	138	-	
314	Computer/Software Fees	1,710		
315	School & Conference	1,706	2,500	12,500
319	Contracted Services	11,236	500	5,500
320	Personnel Search Expenses	481	-	
321	Telephone	1,143	1,200	1,200
325	Postage	1,456	1,200	1,200
331	Travel Expense	6,281	4,700	6,000
351	Legal Notices Publishing	746	-	
354	Administrative Charges	(84,389)		
361	General Liability Insurance	533	512	472
405	Computer Maintenance	22,755	21,000	23,326
413	Equipment Rental	3,716	4,233	4,233
434	Employee Recognition Program	581	325	325
451	Dues & Subscriptions	2,170	1,900	3,000
499	Miscellaneous	5,518	-	
	Capital Outlay			
540	Office Equip/Furnishings		-	-
580	Other Equipment		-	-
	Total Expenditures	421,122	408,194	453,205

City Attorney – 416100 - Contracted

The city contracts with the law office of Maki & Overom for city attorney services. The law firm advises the City on all legal matters.

Objectives

- Review contracts, draft contracts and resolutions
- Confer with Mayor, City Administrator and city staff on city matters
- Advise the Hermantown Economic Development Authority

Output

- Draft city ordinances and resolutions
- Draft special assessment documents to meet the requirements of state law
- Draft development agreements

			2015 Actual	2016 Original Budget	2017 Budget
	Services				
308	Legal Fees		41,262	50,000	50,000
	Total Expenditures		41,262	50,000	50,000

Community Development – 419100

The Community Development Department administers wetland, floodplain and zoning regulations in a uniform, fair, and consistent manner. It recommends policies and provides advice for the development of the city consistent with the adopted Comprehensive Plan. It manages development services to the private sector, seeking to build relationships with the development community and enhance the quality and level of development within the city. It also analyzes existing conditions and future trends in transportation, land use, housing, recreation and open space, natural resources, community services, and economic development. It manages the City's Municipal Separate Storm Sewer System (MS4) and all stormwater matters regulated by the Minnesota Pollution Control Agency. The Community Development Department includes a full-time Director, full-time Planning and GIS Technician and a contracted City Planner through a partnership with the Arrowhead Regional Development Commission.

Community Development Department Objectives

- To recommend to the Planning Commission and City Council changes to the Hermantown Comprehensive Plan.
- To prepare and recommend to the City Council plans for specific improvements pursuant to the Comprehensive Plan and to aid the City Council in the development and completion of such projects.
- To hear and review applications and submit reports and offer recommendations to the City Council for special use permits, grading and filling permits, subdivision plats, planned unit developments, commercial-industrial development permits, and other matters as required by the Hermantown Zoning Ordinance.
- To update and recommend changes and amendments to the Hermantown Zoning Ordinance in collaboration with the Planning and Zoning Commission to ensure the city follows current planning and zoning best practices.
- To exercise all powers and perform all duties granted the Planning Commission by Minnesota Statutes Chapter 462.
- To create and make accessible applications, checklists and procedures to assist Hermantown citizens and businesses in handling development and ordinance matters to be considered by the Planning and Zoning Commission and the City Council.
- To provide recommendations related to economic and community development issues to the Executive Director and Commissioners of the Hermantown Economic Development Authority.
- To administer the city's programs for its Municipal Separate Storm Sewer System (MS4), including ensuring conformity to the MPCA General Permit for small MS4 communities consistent with the requirements of Minnesota Rules Chapter 7900.

- To administer the City’s wetlands program, consistent with the requirements of Minnesota Rules Chapter 8420, as amended from time to time, by serving as the Local Governmental Unit (LGU) responsible for administration of the Wetland Conservation Act within the city.
- To administer the city’s program for environmental review, including review of environmental assessment worksheets and other environmental documents leading to submission of reports and recommendations to the Planning and Zoning Commission and City Council.
- To work with the city’s Boards and Commissions to evaluate community needs for planning and development services, land use changes, recreation or transportation improvements, and environmental impacts.
- To stay updated on available grant opportunities and lead the grant application process on behalf of the city.
- To provide regular, consistent service to citizens of the City seeking over-the-counter information about various planning and zoning matters.
- To provide responsive, transparent, and effective development services to citizens and businesses interested in doing business in the city.
- To establish intergovernmental relationships with St. Louis County and neighboring cities to coordinate land use, transportation, and environmental planning efforts.
- To enforce zoning regulations.

Output	2014	2015	2016*
Zoning Certificates	95	77	99
Land Alteration Permits (Fill)	6	8	0
Special Use Permits	5	7	0
Sign Permits	7	23	14
Fence Permits	9	8	6
Planned Unit Development	2	1	2
Commercial Industrial Development Permit	5	4	3
Variance	5	2	0
Wetland Delineations	7	13	11
Wetland Fill Exemptions	0	9	8
Rezoning	2	1	0
Economic Development Districts (TIF/TA)	1	2	0
Zoning Amendments	10	6	0
Subdivision	2	1	0
Non-Conforming Use Permits	6	1	0
Property Splits	12	5	6
* As of November 2016			

Authorized Personnel

The Community Development Department has a full-time Director and a GIS/Planning Tech. A contract is in place with Arrowhead Regional Development Commission/Regional Planning Division for city planning services, with a City Planner active at Hermantown city offices 16 hours per week.

FTE Equivalent Employees

2.00

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
101-151	Salaries/Benefits	184,124	185,307	0.6%
201-451	Supplies/Services & Maintenance	56,554	59,740	5.6%
540	Capital Outlay			
	Total Expenditures	240,678	245,047	1.8%

Budget Commentary

The 2017 Community Development operating budget is increasing by 1.8%. The City contracts for City Planner services with the Arrowhead Regional Development Commission. The contract will be renewed for 2017. The City Planner will work 16 hours a week in this department.

The Director and City Planner are continuing to implement the goals and recommendations of the City of Hermantown Comprehensive Plan as directed by the Planning Commission and the City Council. Goals include completion of environmental projects, streamlining the issuance of zoning certificates, creating a development services page on the website, and improving the zoning code.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
101	Full-Time Employees-Regular	80,628	121,028	119,952
121	PERA Contributions-Coordinated	5,555	9,077	8,996
128	Social Security	4,853	7,504	7,437
129	Medicare	1,135	1,755	1,739
131	Health Insurance	19,745	42,790	45,825
133	Life Insurance	257	354	307
134	Disability Insurance	361	684	590
151	Workers Compensation	736	932	461
	Supplies/Services & Maintenance			
201	Office Supplies	182	500	300
202	Printing Supplies	18	200	200
209	Computer Supplies	-	450	500
221	General Supplies	113	0	
304	Parcel Research Fees	130	350	
305	Engineer Fees	2,490	2,500	2,500
308	Legal Fees	21,109	5,000	9,000
310	Recording/Filing Fees	828	650	1,000
314	Computer/Software Fees	700	0	5,000
315	School & Conference	324	2,150	2,500
316	GIS Services	-	2,500	
319	Contracted Services	39,120	24,000	24,000
320	Personnel Search Expenses	866	-	
321	Telephone	418	500	300
325	Postage	478	450	450
331	Travel Expense	479	300	500
351	Legal Notices Publishing	800	700	700
354	Administrative Charges	(51,026)	0	
361	General Liability Insurance	9,568	10,354	7,664
404	Equipment Maintenance	-	50	50
405	Computer Maintenance	3,099	2,950	3,111
413	Equipment Rental		250	
451	Dues & Subscriptions	2,085	2,700	
499	Miscellaneous	9	0	1,965
540	Office Equip/Furnishings	-	0	0
	Total Expenditures	145,060	240,678	245,047

City Hall/Police Building Maintenance - 419901

Maintenance is conducted to preserve the city buildings and track the expenditures required to maintain City Hall and the Police side of the public safety portion of the building on 5105-5111 Maple Grove Road, Hermantown.

Objectives

- Maintain a reputable facility to house meetings and staff

Authorized Personnel

The City Hall/Police Building Maintenance department includes the Building Grounds Maintenance worker as authorized personnel. This position also does maintenance work for other buildings including Fire hall #1, #2 & #3, Public Works and Community Building

FTE Equivalent Employees

.65

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
101-151	Salaries/Benefits	61,330	69,834	13.9%
211-460	Supplies/Services & Maintenance	109,512	100,645	-8.1%
	Total Expenditures	170,842	170,479	-0.2%

Budget Commentary

The 2017 city hall/police building maintenance operating budget had an overall .2 % decrease from 2016. Budget includes yearly license expense.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
101	Full-Time Employees-Regular	30,808	31,628	36,257
102	Full-Time Employees-Overtime	2,126	226	1,312
103	Part-Time Employees-Regular	7,099	5,951	9,360
105	Temporary Employees - Regular		1,518	
121	PERA Contributions-Coordinated	3,028	2,835	2,703
128	Social Security	2,375	2,438	2,815
129	Medicare	556	570	658
131	Health Insurance	13,873	13,695	14,893
133	Life Insurance	48	45	41
134	Disability Insurance	171	179	161
151	Workers Compensation	2,173	2,245	1,634
	Supplies /Services & Maintenance			
211	Cleaning Supplies	131	1,000	
212	Motor Fuels	993	1,300	1,000
216	Uniforms		100	250
219	Other Operating Supplies	3,118	5,000	
221	General Supplies	1,124	0	10,000
223	Bldg Repair & Maint Supplies	6,286	5,000	
224	Land Maintenance & Repair	868	1,000	
315	School & Conference		350	
319	Contracted Services	1,366	1,500	2,000
321	Telephone	6,375	6,000	9,438
322	Internet	6,786	7,000	6,800
351	Legal Notices Publishing	42		
361	General Liability Insurance	10,164	10,042	9,942
381	Electricity	26,237	28,000	28,000
383	Heating Gas	12,715	25,000	20,000
384	Garbage Removal	1,836	2,000	2,000
401	Building Maintenance	10,463	8,000	8,000
404	Equipment Maintenance	9,127	4,500	
405	Computer Maintenance	1,489	3,000	2,175
406	Vehicle Maintenance		500	500
417	Uniform Rental	59	-	-
451	Dues & Subscriptions	40	70	90
460	Permits & Licenses	209	150	450
499	Miscellaneous		-	-
	Capital Outlay			
520	Buildings & Structures		-	-
540	Office Equip/Furnishings			-
	Total Expenditures	161,685	170,842	170,479

Police – 421100

The Police Department is responsible for law enforcement within the city and cooperates with surrounding law enforcement agencies.

Objectives

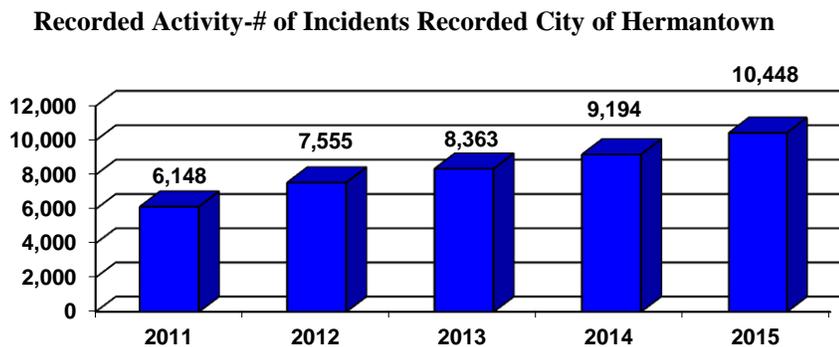
- The police department will strive to lower the crime rate in the City of Hermantown.
- The police department will strive to lower the motor vehicle crash rate in the City of Hermantown.
- The police department will cooperate with businesses to reduce crime.
- The police department will cooperate with the Hermantown School District to improve safety and security for students and staff.

Authorized Personnel

The Police Department has 15 licensed officers as follows; (1) Chief of Police, (1) Deputy Chief, (3) Police Sergeants, (1) Detective, (1) School Police Liaison/Dare Officer, (8) Patrol Officers. The department also has (3.00 FTE) Police Secretaries.

FTE Equivalent Employees

18.00



Incidents are the total number of calls the Police Department handled. Recorded incidents in 2015 totaled 10,448 compared to 9,194 in 2014, a 13.64% increase.

Part I & II Serious Crime

	2010	2011	2012	2013	2014	2015	+/-%
Assault	52	63	43	41	43	43	0%
Burglary	37	59	54	64	33	47	42%
Forgery/Counterfeiting	17	16	25	6	22	16	-27%
Drugs/Narcotics	55	31	50	30	55	57	4%
Escape	1	0	3	2	5	3	-40%
Arson/Fires	0	0	0	2	0	0	0%
Gambling	0	0	0	0	0	0	0%
Homicide	0	0	0	0	0	0	0%
Crime Against Families	6	7	6	11	7	16	129%
Traffic & Accident Offenses/DWI	64	96	107	85	102	102	0%
Kidnap/Abduction	1	1	0	0	0	2	0%
Criminal Sexual Conduct	8	17	12	6	11	11	0%
Miscellaneous/Federal/Conservation/Juvenile/Liquor	26	26	24	27	25	20	-20%
Disturbing Peace/Privacy/Communications	84	75	62	61	59	39	-34%
Obscenity	3	3	2	1	2	5	150%
Trespass/Property Damage/Risk from Property Damage	91	89	79	110	72	74	3%
Receiving or Concealing Stolen Property	7	2	8	8	2	1	-50%
Robbery	1	1	0	1	4	0	-100%
Theft	332	360	354	408	323	440	36%
Vehicle Theft	34	32	53	72	29	48	66%
Weapons	3	4	9	3	7	9	29%
Crimes Against Administration of Justice	10	18	11	20	17	12	-29%
Crimes Against Government/Public Official	2	1	5	2	2	4	100%
Sex Related/Prostitution	0	0	0	2	0	0	0%
	834	901	907	962	820	949	16%

Part I & II Serious Crime increased 16% in 2015 with a total of 949 offenses compared to 820 in 2014.

Source of Data: Hermantown Police Department Annual Reports

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
101-151	Salaries/Benefits	1,824,716	2,087,828	14.4%
201-499	Supplies/Services & Maintenance	299,924	307,393	2.5%
540-580	Capital Outlay	98,500	99,540	1.1%
720	Other Financing Uses	-	-	0.0%
	Total Expenditures	2,223,140	2,494,761	12.2%

Budget Commentary

The 2017 police department operating budget is increasing by 12.2% from 2016. Increases were budgeted into step increases for police, increases in health insurance and general liability insurance.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
101	Full-Time Employees-Regular	1,081,908	1,163,129	1,348,317
102	Full-Time Employees-Overtime	175,164	90,506	133,500
111	Severance Pay-Vacation	8,491		
121	PERA Contributions-Coordinated	8,088	9,066	10,335
122	PERA Contributions-Police/Fire	184,401	179,456	194,552
128	Social Security	6,349	7,495	8,544
129	Medicare	17,557	17,815	19,412
131	Health Insurance	239,190	311,627	345,662
133	Life Insurance	1,447	1,631	1,509
134	Disability Insurance	5,147	6,511	6,143
151	Workers Compensation	36,106	37,480	19,854
	Supplies /Services & Maintenance			
201	Office Supplies	1,539	1,500	1,500
202	Printing Supplies	1,438	3,000	2,000
209	Computer Supplies	1,183	1,500	1,200
211	Cleaning Supplies	1,975	2,500	2,500
212	Motor Fuels	31,712	43,000	43,000
216	Uniforms	14,484	15,000	15,500
218	Medical Supplies	81	800	1,000
219	Other Operating Supplies	1,627	1,900	1,900
221	General Supplies	815	500	-
222	Tires	4,395	4,800	5,000
240	Gun Supplies/Ammo/Tasers	10,737	9,750	10,500
308	Legal Fees	86,584	94,000	94,000
314	Computer/Softw are Fees	16,448	15,000	16,000
315	School & Conference	6,243	10,500	10,500
317	Personnel Testing, Physicals, Recruitment	3,801	1,000	2,000
319	Contracted Services	1,049		3,000
320	Personnel Search Expenses			1,000
321	Telephone	9,966	9,150	10,000
325	Postage	938	1,000	1,200
331	Travel Expense	10,165	8,500	8,500
343	Community Relations	903	1,500	1,500
351	Legal Notices Publishing	260	100	300
361	General Liability Insurance	23,670	25,559	24,693
404	Equipment Maintenance	5,692	3,200	4,300
405	Computer Maintenance	19,734	18,000	20,000
406	Vehicle Maintenance	8,603	12,000	10,000
413	Equipment Rental	3,681	4,815	4,800
434	Employee Recognition	293	250	
436	Tow ing Charges	380	500	750
451	Dues & Subscriptions	2,028	1,400	1,750
460	Permits & Licenses	693	600	400
490	K-9 Expenses	1,464	2,100	2,100
495	Property Damage Reimb. By Insurance	1,000	3,000	3,000
496	Insurance Deductible			
499	Miscellaneous	4,748	3,500	3,500
	Capital Outlay			
540	Office Equip/Furnishings	2,128	5,000	7,240
544	Motor Vehicles	63,375	81,500	82,000
580	Other Equipment	5,827	12,000	10,300
	Other Financing Uses			
720	Transfer Out	15,000	15,000	
	Total Expenditures	2,128,507	2,238,140	2,494,761

Fire Protection – 422100 - Contracted

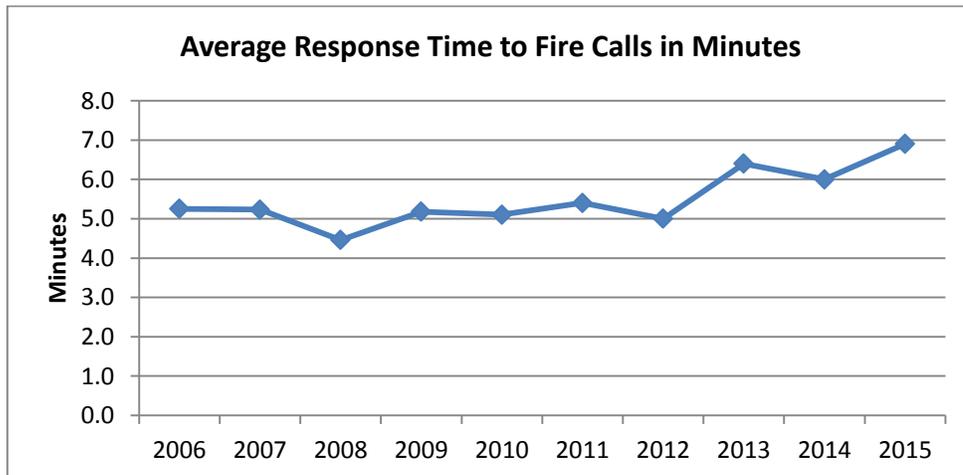
The City of Hermantown contracts yearly for fire protection with The Hermantown Volunteer Fire Department (HVFD) for all properties within the City. In addition, the department also provides first responder service within the City. The HVFD was incorporated in 1951. It functions independent of the city and its officers are elected by the membership.

Objectives

- Provide fire protection.
- First responder service.

Output

- Averaged an overall response time excluding mutual aid of 6.9 minutes in 2015.



***Note-These times are excluding Mutual Aid and per the Fire Department 911 doesn't always record the on scene times properly.**

Fire Department Incident Type Summary	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Severe Weather & Nature Disaster							5	0	0	0
Overpressure Rupture, Explosion, Overheat							3	3	2	0
Hazardous Condition (No Fire)	26	42	38	43	22	34	24	22	22	33
Good Intent Call	15	18	25	27	35	61	39	44	1	48
Controlled Burning									2	
Fire	46	40	25	28	42	25	36	25	33	36
False Alarm & False Call	31	46	28	13	32	38	32	38	57	30
Special Incident Type		2	4					1	1	
Service Call	17	6	5	3	3	27	28	17	17	25
Rescue & Emergency Medical Service Incident	463	424	453	501	443	555	549	679	795	761
Total Incidents	598	578	578	615	577	740	716	829	930	933

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
125-151	Salaries/Benefits	39,091	39,296	0.5%
301-363	Supplies/Services	418,100	559,850	33.9%
540	Other Financing Uses	-	-	
	Total Expenditures	457,191	599,146	31.0%

Budget Commentary

The 2017 operating budget increased 31% from 2016. The Fire Protection has been at the same amount for the past four years. The key areas for the increase are for new equipment, vehicle maintenance and payroll for administration costs and duty crew staffing. The salaries/benefits include \$25,000 contributions to firemen's pension and workers compensation expense for the firefighters. The workers compensation increases are based on city populations and claims history. The pension contributed has remained unchanged for over 5 years.

The City pays for the maintenance of the City's three Fire halls, physicals for new firefighters, audit fees-(HVFD and Hermantown Fire Relief), workers compensation and building liability insurance premiums, utilities, telephone and internet.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
125	Firemens Pension Contributions	25,000	25,000	25,000
151	Workers Compensation	15,654	14,091	14,296
	Supplies/ Services & Maintenance			
301	Audit/Account Services	6,075	5,850	5,850
308	Legal Fees	231	250	-
317	Personnel Testing, Physicals, Recruitment	1,377	2,000	2,000
318	Fire Protection	375,000	375,000	477,000
319	Contracted Services	22,862		
363	2% Fire Insurance	56,452	35,000	35,000
	Other Financing Uses			
540	Office Equipment Furnishings			
	Total Expenditures	502,651	457,191	559,146

Fire Hall #1 - 422901

Fire hall maintenance is conducted to preserve the citizen's investment in city buildings and to track the costs associated with maintaining and preserving the fire hall portion of the public safety facility. There are 3 fire stations located in Hermantown.

Fire Hall #1 is located at:
5111 Maple Grove Road

FTE Equivalent Employees

.21

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
101-151	Salaries/Benefits	16,252	18,284	12.5%
219-405	Supplies/Services & Maintenance	44,682	47,960	7.3%
	Total Expenditures	60,934	66,244	8.7%

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
101	Full-Time Employees - Regular	11,348	9,840	11,156
102	Full-Time Employees - Overtime	701	70	404
103	Part-Time Employees - Regular	320		
121	PERA Contributions - Coordinated	929	735	832
128	Social Security	728	614	687
129	Medicare	170	144	161
131	Health Insurance	4,701	4,214	4,583
133	Life Insurance	17	14	13
134	Disability Insurance	62	55	49
151	Workers Compensation	533	566	399
	Supplies/Services & Maintenance			
223	Bldg Repair & Maint Supplies	1,345	2,300	2,500
321	Telephone	1,440	1,300	2,216
322	Internet	1,713	1,700	1,800
361	General Liability Insurance	3,078	3,038	2,944
381	Electricity	16,864	18,500	18,500
383	Heating Gas	7,702	15,000	15,000
401	Building Maintenance	1,059	2,000	5,000
404	Equipment Maintenance	1,164	844	
460	Permits and Licenses	10	-	
495	Property Damage Reimb. By Insurance	-		
	Total Expenditures	53,884	60,934	66,244

Fire Halls #2 & #3 – 422902/422903

Fire hall maintenance is conducted to preserve the citizen's investment in city buildings and to track the costs associated with maintaining the fire halls.

Fire Hall #2 is located at 4900 Morris Thomas Road.

Fire Hall #3 is located at 4494 Midway Road.

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
223-383	Supplies/Services & Maintenance	13,009	16,914	30.0%
	Total Expenditures	13,009	16,914	30.0%

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Supplies/Services & Maintenance			
223	Bldg Repair & Maint Supplies	1,950	1,950	1,950
322	Internet	163		1,850
361	General Liability Insurance	666	659	714
381	Electricity	3,064	2,400	3,400
383	Heating Gas	9,008	8,000	9,000
413	Equipment Rental	113		
460	Permits & Licenses	10		
	Total Expenditures	14,974	13,009	16,914

Building Inspection – 424100

The building official is responsible for administration, interpretation and enforcement of the MN State Building Code.

The primary goal of the department is to seek compliance with the minimum standards of the MN State Building Code in residential and commercial construction activities.

Building inspection fees have covered the cost associated with this service.

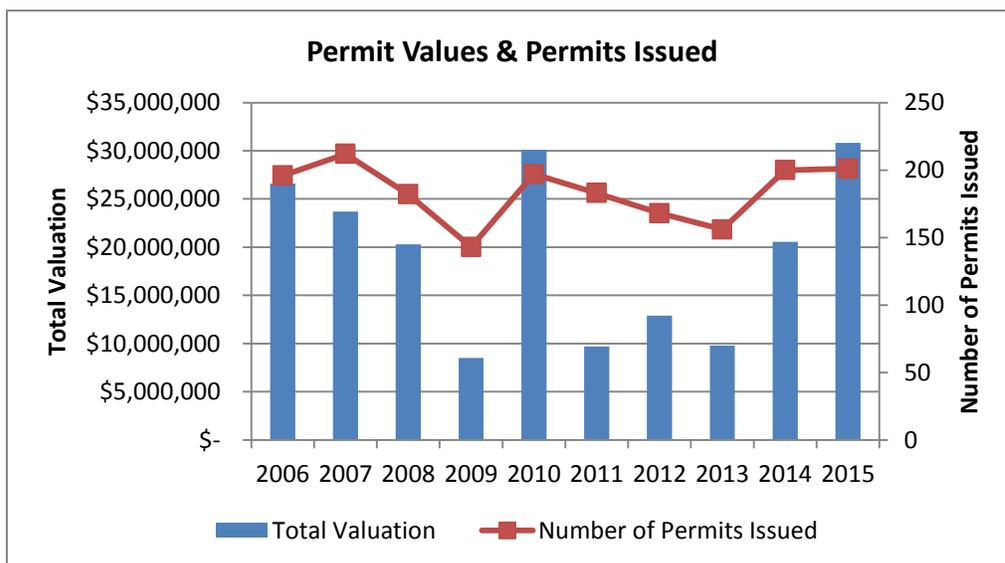
Objectives

- Enforce uniform building code.
- Review building plans.
- Issue building permit & certificate of occupancy permits.
- File state reports on construction activity.
- Inform customers of code changes and new requirements.
- Conduct site inspections.
- Provide code interpretation.
- Provide assistance to the customer with building code related questions or issues.
- Issue 911 addresses.
- Fire Inspections.

Output

- Building Permits Issued 2015 - 201 for Total Value of \$30,817,218

Commercial - 3 valued at \$15,904,392, Commercial additions - 21 valued at \$3,137,157, Single Family - 36 valued at \$8,002,065, SF additions - 13 valued at \$543,075, Garages - 23 valued at \$514,664, Sheds - 2 valued at \$4,800, Decks - 19 valued at \$116,288, Roof/Siding/Windows - 56 valued at \$527,799, Miscellaneous (mechanical, plumbing, demo) - 28 valued at \$2,066,978



Authorized Personnel

The Building Inspection Department has one full-time Building Official and is assisted by the Receptionist/Administrative Assistant.

FTE Building Inspection Position

1.00

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
101-151	Salaries/Benefits	136,030	134,487	-1.1%
201-451	Supplies/Services & Maintenance	9,400	10,286	9.4%
	Total Expenditures	145,430	144,773	-0.5%

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
101	Full-Time Employees-Regular	84,965	92,467	94,058
121	PERA Contributions-Coordinated	6,372	6,935	7,055
128	Social Security	5,491	5,733	5,832
129	Medicare	1,284	1,340	1,363
131	Health Insurance	27,068	28,042	25,297
133	Life Insurance	315	306	273
134	Disability Insurance	283	495	468
151	Workers Compensation	638	712	141
	Supplies/Services & Maintenance			
201	Office Supplies	575	200	350
202	Printing Supplies			100
227	Street Lights & Signs	885	1,000	1,200
304	Parcel Research Fees			200
307	Building Inspector Fees	471		
308	Legal Fees	420	1,000	1,000
315	School & Conference	389	275	300
321	Telephone		25	25
325	Postage	134	150	150
331	Travel	5,452	5,000	5,000
405	Computer Maintenance	1,024	1,200	1,461
451	Dues & Subscriptions	240	550	500
	Capital Outlay			
510	Land Acquisition			
540	Office Equip/Furnishings			
	Total Expenditures	136,006	145,430	144,773

Poundmaster - 427100

The City provides limited animal control services. The City works with Animal Allies Humane Society in Duluth for a portion of this service to the community.

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
319	Supplies/Services	4,000	2,600	-35.0%
	Total Expenditures	4,000	2,600	-35.0%

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Supplies & Services			
319	Contracted Services	2,510	4,000	2,600
	Total Expenditures	2,510	4,000	2,600

Street - 431100

The street department is responsible for maintenance, ice and snow removal of all municipal streets, as well as public street right of ways. The Public Works Director is responsible for leading the maintenance and repair of city streets for safe use. There are three full-time employees that work within the street department. Water and sewer employees will assist the street department employees during snowfall events. City snow removal equipment consists of three trucks with plows and a grader. The plowing of all city streets after a snowfall event takes approximately ten (10) hours. Principal collector streets are always plowed first before residential neighborhood streets.

Objectives

- Patching of city streets
- Grading graveled streets
- Ice control or sanding of streets
- Monitor & oversight of weed control in right-of-ways
- Sign installation & maintenance
- Inspect excavation permits
- Inspection of all street related jobs
- Barricading
- Maintenance of storm sewers
- Litter pickup in right-of-ways
- Maintain equipment
- Thaw main culverts
- Crack filling
- Dust control
- Painting traffic control markings – contracted
- Sweeping city streets- contracted
- Paving - contracted

2015 Statistical Information	
Asphalt Streets Maintained	49.43 Miles
Gravel Roads Maintained	18 Miles
Cul-De-Sacs	37
Road Markings/Striping	12 Miles
Curb & Gutter Street Sweeping (Contracted Services)	14.5 Miles
Gravel Usage	3,331 Tons
Sand Usage	1,800 Tons
Salt Usage	300 Tons
Calcium Chloride Cost 2015	\$32,000

Authorized Personnel

The Street Department has the following authorized personnel; Public Works Director, Street Maintenance Workers.

FTE Equivalent Employees

4.01

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
101-151	Salaries/Wages	325,745	286,595	-12.0%
201-451	Supplies/Services & Maintenance	230,562	307,491	33.4%
540	Capital Outlay	-		0.0%
544	Motor Vehicles	32,600		0.0%
	Total Expenditures	588,907	594,086	21.3%

Budget Commentary

The 2017 street department operating budget was increased by 21.3% from 2016. The increase is due mainly to road and equipment maintenance needed.

There is a decrease in salaries due to an allocation correction to Water and Sewer departments.

Budget Detail

	2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
Salaries & Benefits			
101 Full-Time Employees - Regular	165,540	202,326	179,898
102 Full-Time Employees - Overtime	7,348	4,847	5,597
105 Temporary Employees - Regular		1,301	
121 PERA Contributions - Coordinated	13,078	15,538	13,417
128 Social Security	10,578	12,925	11,092
129 Medicare	2,474	3,023	2,594
131 Health Insurance	58,550	64,680	71,716
133 Life Insurance	339	368	297
134 Disability Insurance	906	1,140	826
151 Workers Compensation	18,111	19,597	1,158
Supplies/Services & Maintenance			
201 Office Supplies		285	
202 Printing Supplies	60	95	
209 Computer Supplies		190	
211 Cleaning Supplies			500
212 Motor Fuels	24,534	45,000	42,000
213 Lubricants/Additives	1,131	2,375	2,375
219 Other Operating Supplies	179		
221 General Supplies	1,834	3,800	200
212 Tires	4,295	2,000	2,000
223 Bldg Repair & Maint Supplies	168	175	184
225 Street Maintenance Supplies	17,182	19,000	28,000
226 Sand, Salt, Chloride	39,663	63,650	63,000
227 Street Lights & Signs	2,648	2,500	2,500
305 Enginner Fees	9,045		4,725
308 Legal Fees	203		
314 Computer/Software Fees	299		300
315 School & Conference	90	500	525
319 Contracted Services	30,969	27,000	30,000
321 Telephone	1,863	2,400	2,520
322 Internet	317	295	350
323 Gopher One Call Locates		1,120	
324 Radio Communications		250	
331 Travel Expense		250	263
351 Legal Notices Publishing	532		500
361 General Liability Insurance	9,636	9,552	4,832
403 Road Maintenance	15,238	20,000	60,000
404 Equipment Maintenance	29,777	17,000	44,850
405 Computer Maintenance	5,851	6,400	7,054
406 Vehicle Maintenance	3,183	2,000	3,000
413 Equipment Rental	3,913	4,000	4,200
417 Uniform Rental	477	400	2,000
434 Employee Recognition Plan	50	275	280
451 Dues & Subscriptions	15	50	53
460 Permits & Licenses			180
495 Property Damage Reimb. By Insurance			
496 Insurance Deductible			1,000
499 Miscellaneous			100
Capital Outlay			
540 Office Equip/Furnishings			
543 Heavy Equipment	28,202		
544 Motor Vehicles	646	32,600	
580 Other Equipment	165		
Total Expenditures	509,089	588,907	594,086

City Engineer – 431130 - Contracted

In 2015, the City contracted with Northland Consulting Engineers. No change is anticipated in 2017.

Objectives

- Responsible for the implementation of the Minnesota State Aid program within the City of Hermantown.
- Prepare “minor” plans, which will include necessary overlays. The Engineer shall supervise the construction and make up the partial and final estimates on these projects.
- Review all proposed subdivision plats and write up recommendations for any changes needed to protect the interests of the City.
- Report directly to the Mayor and City Council and act promptly to requests made by them.
- Work with the City and consultants for the City and provide and develop legal descriptions, plat plans and maps and other information that may be needed by the City.
- Attend City Council, MSA, T.A.C., and M.I.C meetings as directed by the Council.
- Prepare Preliminary Engineering Reports from time to time, as requested, in connection with improvements to be constructed and specially assessed under Chapter 429 of the Minnesota Statutes.

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
305	Engineer Fees	27,000	29,000	7.4%
	Total Expenditures	27,000	29,000	7.4%

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Services			
305	Engineer Fees	25,500	27,000	29,000
	Total Expenditures	25,500	27,000	29,000

City Garage Maintenance - 431901

Maintenance is conducted to preserve the citizen's investment in city buildings. The public works facility is located in the Hermantown Industrial Park. The facility allows more efficient operations and room to expand operations as additional demands for service are placed on the community. Water and sewer fund also supports the City Garage maintenance building.

FTE Equivalent Employees

.24

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
101-151	Salaries/Wages	20,624	17,847	-13.5%
219-404	Supplies/Services & Maintenance	19,368	40,259	107.9%
	Total Expenditures	39,992	58,106	45.3%

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
101	Full-Time Employees-Regular	1,686	11,075	10,719
102	Full-Time Employees-Overtime	437	287	422
103	Part-Time Employees-Regular	721		
105	Temporary Employees - Regular		2,277	
121	PERA Contributions-Coordinated	171	852	799
128	Social Security	174	839	660
129	Medicare	41	198	154
131	Health Insurance	1,299	4,370	4,583
133	Life Insurance	3	16	13
134	Disability Insurance	10	62	48
151	Workers Compensation	480	648	449
	Supplies/Services & Maintenance			
219	Other Operating Supplies	491	600	
221	General Supplies			630
223	Bldg Repair & Maint Supplies	3,413	2,100	25,000
319	Contracted Services	75	300	315
361	General Liability Insurance	5,220	5,067	1,944
381	Electricity	3,014	3,000	4,000
383	Heating Gas	2,287	5,000	5,000
384	Garbage Removal	2,005	1,100	1,155
401	Building Maintenance	995	2,000	2,000
404	Equipment Maintenance	201	201	215
580	Other Equipment			
	Total Expenditures	22,723	39,992	58,106

Parks - 452100

The City of Hermantown owns a number of park facilities located throughout the community. For many of the parks, volunteer organizations, formal organized athletic groups and the Hermantown School District provide a variety of activities for the residents of the City. The City maintains the park facilities, while volunteer organizations, organized athletic groups and the school district manage the programmed recreational activities available to citizens. City parks include a variety of active and passive recreational activities for citizens. The two largest parks, Keene Creek Park and Fichtner Park, include recreational trails and spaces for community gatherings. The City provides playground equipment at several parks, including Fichtner Park and Stebner Park.

Objectives of the Park Board/Park Department

- Annually make reports of its activities to the City Council
- Maintain, beautify and care for all park property in the City
- Perform other functions as delegated by the City Council
- Provide recreational opportunities for all citizens
- Provide a mix of active and passive recreation facilities throughout the community
- Preserve stream corridors and other natural areas not suited for development
- Plan for future development

Hermantown Park Facilities

Rose Road Park (4494 Midway Road-Intersection of Midway & Rose Road) – Softball fields utilized by the Hermantown Softball Association during the summer season.

Stebner Park (4860 Maple Grove Road) – Soccer fields utilized by the Hermantown Youth Soccer Association.

Fichtner Field Complex (Intersection of Maple Grove & Ugstad Road) -Field 1 used by Hermantown High School Baseball between March and early June. Fields 2 & 3 used by Hermantown High School Softball between March and early June. Fields 1, 2, 3, & 4 used by Hermantown Little League between the end of May and beginning of August.

Skateboard Park
Basketball Court
Playground

Keene Creek Park (South end of Okerstrom Road) - Softball field utilized by the Hermantown Softball Association during the summer season. 10 kilometers of trails open for public use.

Hermantown Community Park (5255 Maple Grove Road) - The pavilion at this location can be reserved for family events or group activities.

A Trails Master Plan was adopted by the Park Board and the City Council in Resolution 2011-77. The Trails Master Plan Report is a product of an in-depth planning process for future Hermantown trails. The Trails Master Plan will be reviewed annually during the internal budget process along with the Capital Improvement Plan (CIP). The trail segment and the source of funds to construct the segment must be identified in the CIP approved by the City Council. The Park Board will continue to monitor the progress of the trail system.

Authorized Personnel

The Parks & Recreation department has a part-time maintenance worker and a seasonal mower.

FTE Equivalent Employee

.31

Budget Summary			2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
101-151	Salaries/Wages		28,674	32,493	13.32%
212-413	Supplies/Services & Maintenance		55,377	45,760	-17.37%
500-599	Capital Outlay		0	0	0.00%
Total Expenditures			84,051	78,253	-6.90%

Budget Commentary

The 2017 Park operating budget is 6.9% less than 2016.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
101	Full-Time Employees-Regular	11,475	14,669	11,219
102	Full-Time Employees-Overtime	458	286	466
103	Part-Time Employees-Regular	7,159	4,337	12,636
121	PERA Contributions-Coordinated	914	1,122	836
128	Social Security	1,170	1,196	1,475
129	Medicare	274	280	345
131	Health Insurance	4,606	5,845	4,583
133	Life Insurance	17	21	13
134	Disability Insurance	60	83	50
151	Workers Compensation	936	835	870
	Supplies/Services & Maintenance			
212	Motor Fuels	1,312	2,500	2,500
221	General Supplies	506	650	700
223	Bldg Repair & Maint Supplies	5,486	3,000	3,000
224	Land Maintenance & Repair	14,505	27,000	27,000
305	Engineer Fees	3,803	1,500	1,500
308	Legal Fees	301	300	300
319	Contracted Services	120	200	200
325	Postage	71	70	75
331	Travel Expense	97		
361	General Liability Insurance	11,915	11,732	1,460
381	Electricity	4,031	3,800	3,800
384	Garbage Removal		50	100
404	Equipment Maintenance	4,163	2,500	2,750
413	Equipment Rental	2,890	2,000	2,300
460	Permits & Licenses		75	75
	Capital Outlay			
530	Improvements Other Than Buildings	23,445		
540	Office Equipment/Furnishings	826		
542	Light Equipment	816		
580	Other Equipment	165		
720	Transfer Out	1,500		
	Total Expenditures	103,021	84,051	78,253

Community Building - 452200

The Community building is located at 5255 Maple Grove Road. Arrowhead Builders Association will be leasing the building for \$11,696 for budget year 2017 per Resolution 2010-62. The Hermantown Historical Society is also leasing a portion of this building for \$869 for budget year 2017 per Resolution 2011-18 to display historical items and information. The Minnesota Bureau of Criminal Apprehension is leasing a portion of the building for \$4,867 per lease agreement. The current budget accounts for the cost of maintenance personnel, telephone, insurance, electricity, and heating for the facility.

FTE Equivalent Employees

.10

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
101-151	Salaries & Benefits	8,557	9,141	6.8%
219-401	Supplies/Services & Maintenance	14,785	16,318	10.4%
	Total Expenditures	23,342	25,459	9.1%

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
101	Full-Time Employees - Regular	1,273	4,866	5,578
102	Full-Time Employees - Overtime	350	35	202
103	Temporary Employees-Regular	222	434	
121	PERA Contributions - Coordinated	134	368	416
128	Social Security	109	331	344
129	Medicare	26	77	80
131	Health Insurance	837	2,107	2,291
133	Life Insurance	2	7	6
134	Disability Insurance	8	27	25
151	Workers Compensation	114	305	199
	Supplies/Services & Maintenance			
223	Bldg Repair & Maint Supplies	438	500	1,500
224	Land Maintenance & Repair		100	200
314	Computer/Software Fees	299		
321	Telephone	930	1,300	1,421
322	Internet	989	600	700
361	General Liability Insurance	2,154	2,164	2,512
381	Electricity	4,154	4,500	4,200
383	Heating Gas	2,193	4,000	4,000
401	Building Maintenance	896	1,500	1,500
404	Equipment Maintenance	319	121	
405	Computer Maintenance			285
	Total Expenditures	15,447	23,342	25,459

Cemetery - 490100

There are four private cemeteries and a City cemetery located within Hermantown. The City operates a municipal cemetery and provides regular maintenance of the grounds. The City Cemetery is located along the north side of Morris Thomas Road between Ugstad Road and Lindahl Road. The eligibility requirements for burial are as follows:

- Persons who have resided in the city for 30 years or more.
- Persons who are landowners and residents of the City for at least five consecutive years at the time of their death.
- Persons who were landowners and residents of the City for at least five consecutive years until taking up residence in a skilled nursing care facility.
- Persons residing in an apartment or other leased or rented dwelling unit in the city for five consecutive years at the time of their death.
- Dependent children of persons eligible for burial

FTE Equivalent Employees

.04

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
102-151	Salaries/Wages	3,354	3,400	1.4%
	Total Expenditures	3,354	3,400	1.4%

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
101	Full-Time Employees - Regular	451	1,826	1,083
102	Full-Time Employees - Overtime	59	55	39
103	Part-Time Employees - Regular	752	325	1,404
121	PERA Contributions - Coordinated	39	141	81
128	Social Security	78	137	154
129	Medicare	18	32	36
131	Health Insurance	229	705	458
133	Life Insurance	1	3	1
134	Disability Insurance	2	10	5
151	Workers Compensation	127	120	139
	Total Expenditures	1,756	3,354	3,400

Insurance General - 492200

During 2016, the City changed to Travelers Insurance due to a significant increase in insurance premiums with League of Minnesota Cities Insurance Trust.

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
151	Workers Compensation	471		-100.0%
361	General Liability Insurance	10,032	13,686	36.4%
	Total Expenditures	10,503	13,686	30.3%

Budget Commentary

The city has insurance coverage for city volunteers when volunteering on city projects through Travelers Insurance.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Salaries & Benefits			
151	Workers Compensation	2,668	471	
	Supplies & Services			
361	General Liability Insurance	10,767	10,032	13,686
	Total Expenditures	13,435	10,503	13,686

Special Revenue Funds

Fund 230 – Hermantown Economic Development Authority

The Hermantown Economic Development Authority (HEDA) was established on April 6, 1992 by Resolution 92-29. HEDA is governed by a board of commissioners with seven members. All of the members of the City Council are board members and two public members. The City is financially accountable for HEDA because the City Council approves the budget for HEDA, levies taxes (if necessary), and must approve any debt issuances. HEDA sponsors projects involving tax exempt financing (“conduit financing”) for the benefit of outside entities. For this reason, HEDA is reported as a discretely presented component unit. HEDA has no employees, but has contracted with the City for administrative services. Board members do receive pay for each meeting they attend.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Revenues			
310100	Current Year Taxes	42,140	72,380	72,380
341010	Building Rentals	1,000	1,000	1,000
361100	Principal Current	9,601		
361200	Principal Interest	1,631		
362110	Checking Account Interest		50	20
362160	Gain (Loss) on Sale if Investments			
362310	Nongovernmental Grants			
362440	Conduit Financing Fees	1,682	2,270	1,682
392000	Transfers In			
	Total Revenues	56,054	75,700	75,082
	Expenditures			
	Supplies & Services			
101	Full-Time Employees - Regular			17,369
103	Part-Time Employees - Regular	1,700	4,200	4,200
123	PERA Contributions - DCP	48	60	1,512
128	Social Security	43	260	1,142
129	Medicare	25	60	313
133	Life Insurance	8		
201	Office Supplies		250	250
221	General Supplies			100
304	Parcel Research Fees		350	
308	Legal Fees	208		100
315	School & Conference	990	1,000	1,000
316	GIS Services		500	
319	Contracted Services	18,862	63,120	43,096
325	Postage		100	
331	Travel Expense	761	1,000	1,000
343	Community Relations	345	2,000	2,000
451	Dues & Subscriptions	2,845	2,800	3,000
	Total Expenditures	25,835	75,700	75,082
	Revenues Over Expenditures	30,219	-	-

Fund 235 - Park Dedication Fund

Accounts for the collection of revenues dedicated to the acquisition and capital improvement of City parks. Revenue is collected by charging a park dedication fee on new buildings and developments.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Revenues			
322460	Park Dedication Fee	17,550	18,000	20,000
322470	Park Dedication Fee in Lieu of Land	45,075	5,000	5,000
362100	Investment Interest	2,259	1,500	1,500
362110	Checking Account Interest	161	100	10
362160	Gain (Loss) on Sale of Investments	1,467		
362250	City Property Lease	13,534	7,336	7,336
362300	Donations			
362350	Development Agreement Fees			
	Total Revenues	80,046	31,936	33,846
	Expenditures			
	Services			
308	Legal Fees			
	Capital Outlay			
530	Improvements Other Than Bldgs		20,000	20,000
	Total Expenditures	-	20,000	20,000
	Revenues Over (Under) Expenditures	80,046	11,936	13,846

Fund 236 - Wetland Mitigation Fund

The Wetland Mitigation Fund accounts for the collection of revenues from landowners who disturb wetlands in connection with the development of a parcel of land to utilize for the acquisition, enhancement, restoration, or creation of Wetlands within the City.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Revenues			
322125	Wetland Bank Fee	11,909	1,000	1,000
362110	Checking Account Interest			
362350	Checking Account Interest			
392010	Transfers In			
	Total Revenues	11,909	1,000	1,000
	Expenditures			
	Supplies & Services			
227	Street Lights & Signs		350	350
315	School & Conference		650	650
319	Contracted Services	2,400	3,500	3,500
325	Postage		100	100
331	Travel Expense		300	300
510	Land Acquisition		2,500	2,500
	Total Expenditures	2,400	6,400	7,400
	Revenues Over (Under) Expenditures	9,509	(5,400)	(6,400)

Fund 240 - City Sales Tax Fund

Accounts for the City sales tax collected that is authorized by the Minnesota State Legislature to fund the construction of a city administrative services/public safety facility, Hermantown sewer trunk line and water infrastructure improvements. The Hermantown City Sales Tax rate was increased from .5% to 1%. Voters approved the increase in the 2012 General Election. Collections at the 1% rate were effective April 1, 2013.

Budget Commentary

Description of Transfers out: General Fund & Debt Service Funds.

General Fund	101	\$ 15,000
Public Project Revenue Bonds/Series 2006A	315	\$ 698,807
2009A GO Bond-PW Salt/Storage & Refinance 2003	318	\$ 153,907
2010A GO Bonds	319	\$ 180,188
2012A GO Bonds	320	\$ 197,539
2012B GO Improvement Bonds	321	\$ 40,119
2014A GO Bonds	322	<u>\$ 215,000</u>
Total		\$ 1,500,560

FTE Equivalent Employees

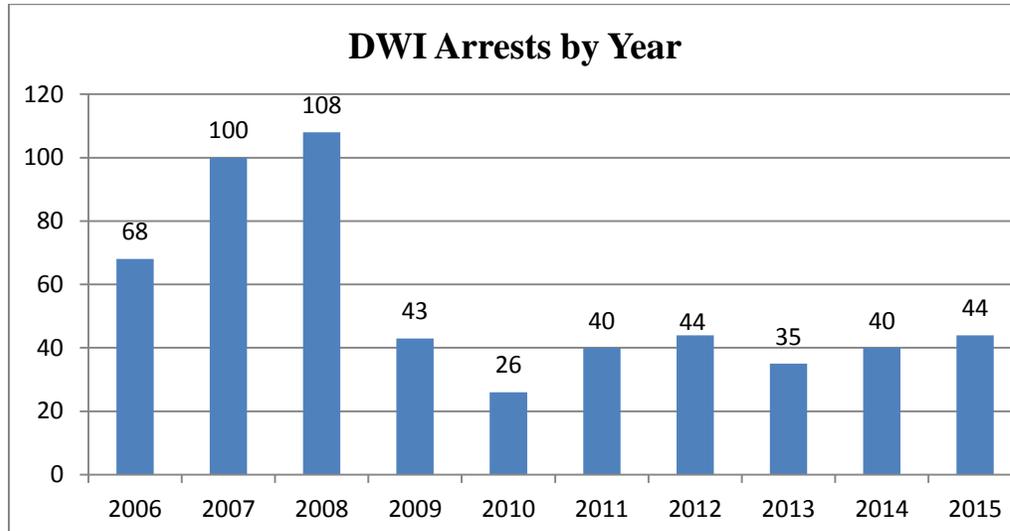
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Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Revenues			
313100	City Sales Tax	2,720,350	2,500,000	2,800,000
362100	Investment Interest	17,190	15,000	20,000
362110	Checking Account Interest	2,005	1,000	1,000
362160	Gain (Loss) on Sale of Investments			
362990	Miscellaneous Revenue			
	Total Revenues	2,739,545	2,516,000	2,821,000
	Expenditures			
	Salaries & Benefits			
101	Full-Time Employees-Regular	27,401	29,303	29,876
121	PERA Contributions - Coordinated	2,055	2,198	2,139
128	Social Security	1,765	1,817	1,852
129	Medicare	413	425	433
131	Health Insurance	4,977	5,430	5,728
133	Life Insurance	71	71	65
134	Disability Insurance	122	122	117
151	Workers Compensation	196	226	45
	Supplies /Services & Maintenance			
305	Engineer Fees	12,362	10,000	10,000
310	Engineer Fees	46		
315	School & Conference		200	
331	Travel Expense	1,620	1,620	1,620
530	Improvements Other Than Buildings	159,656		
	Other Financing Uses			
720	Transfer Out	1,354,861	1,409,659	1,500,560
	Total Expenditures	1,565,545	1,461,071	1,552,435

Fund 251 - Police Program Fund

Police Program Fund accounts for revenue and expenditures for special police programs such as alcohol/drug forfeitures, police K9, and the public safety expo.



Data Source: Hermantown Police Department Annual Reports

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Revenues			
351000	Impound Fees			
351010	Court Fines	1,275	1,500	1,500
352010	Unclaimed Property			
352020	Forfeitures	9,479	2,500	2,500
352026	30% DWI Forfeiture Legal		300	
362110	Checking Account Interest	10	15	5
362300	Donations		250	
392010	Transfers In			
	Total Revenues	10,764	4,565	4,005
	Expenditures			
	Supplies/Services & Maintenance			
308	Legal Fees	2066		
331	Travel Expense	670		
436	Tow ing Charges	432		
460	Permits & Licenses	104		
490	K-9 Expenses	718		
499	Miscellaneous	180		
	Total Expenditures	4,170	-	-
	Revenues Over Expenditures	6,594	4,565	4,005

Fund 260 - Cable Television Fund

Accounts for the revenues and expenditures associated with administering a franchise agreement with Mediacom to provide cable television to Hermantown residents. The current franchise fee charge is 5% of a resident's Mediacom cable television bill. Hermantown High School is the site of the control room for the local cable channel.

FTE Equivalent Employees

.06

Budget Commentary

The Cable TV Coordinator is a contracted position. Administration staff salary and benefits are allocated to the Cable Fund for administration of the Fund.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Revenues			
318100	Cable TV Franchise Fees	41,804	42,700	42,700
362100	Investment Interest	7,342	2,500	1,300
362110	Checking Account Interest	11	100	
362160	Gain (Loss) on Sale of Investments	542		
	Total Revenues	49,699	45,300	44,000
	Expenditures			
	Salaries & Benefits			
101	Full-Time Employees - Regular	5,061	5,362	5,523
121	PERA Contributions - Coordinated	380	402	402
128	Social Security	305	332	342
129	Medicare	71	78	80
131	Health Insurance	1,194	1,303	1,374
133	Life Insurance	17	17	15
134	Disability Insurance	24	25	24
151	Workers Compensation	35	41	9
	Supplies/Services & Maintenance			
221	General Supplies		300	
303	Banking Fees	8		
308	Legal Fees	2,646	1,000	1,000
319	Contracted Services	7,500	10,000	10,000
325	Postage		20	
351	Legal Notices Publishing		100	
361	General Liability Insurance	110	109	60
404	Equipment Maintenance	1,988	1,000	
405	Computer Maintenance	86		
434	Employee Recognition		500	
451	Dues & Subscriptions		150	
	Capital Outlay			
540	Office Equip/Furnishings	1,510	18,000	
580	Other Equipment		25,000	
	Total Expenditures	20,935	63,739	18,829
	Revenues Over Expenditures	28,764	(18,439)	25,171

Fund 270 – Soccer Association Fund

Accounts for the revenues and expenditures associated with the development agreement of the soccer field with the Hermantown Soccer Association.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Revenues			
362100	Investment Interest			
362350	Development Agreement	\$ 27,884	\$ 4,558	\$ 21,922
	Total Revenues	\$ 27,884	\$ 4,558	\$ 21,922
	Expenditures			
303	Banking Fees			\$ -
	Total Expenditures	\$ -	\$ -	\$ -
	Revenues over Expenditures	\$ 27,884	\$ 4,558	\$ 21,922

Debt Service Funds

Fund 301 – Equipment Debt Service

Accounts for the accumulated resources from tax levy to pay the interest and principal payments on the Certificate of Indebtedness. In the past, the Certificate of Indebtedness was issued to purchase large pieces of equipment. The City is currently financing the purchase of the motor grader.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Revenues			
310100	Current Year Taxes		49,547	49,547
310110	Current Year Taxes - Mobile Homes/SEV MIN			
310200	Delinquent Taxes		600	
393400	Delinquent Taxes - Mobile Homes			
	Total Revenues	-	50,147	49,547
	Expenditures			
	Debt Service			
603	Principal/Short Term Debt	65,956	47,266	48,297
613	Interest/Short Term Debt	2,589	2,281	1,250
720	Transfer Out			
	Total Expenditures & Other Financing Sources	68,545	49,547	49,547
	Revenues Over (Under) Expenditures	(68,545)	600	-

Fund 315 – Public Project Revenue Bonds, Series 2006A (2016B)

The Public Project Revenue Bonds, Series 2006A were issued in December of 2006 in the original amount of \$9,630,000, carry a net interest rate of 4.05% and mature in 2027. The bonds were used to refinance the Public Project Revenue Bonds, Series 1998 (Police/Fire Building) and to construct an administrative services addition to the public safety facility. In 2016 a refunding was done. The first payment on the new 2016B Bonds will be in February 2017.

The debt is being paid by city sales tax collections. No levy.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Revenues			
362110	Checking Account Interest			
392010	Transfer In		698,807	698,807
	Total Revenues	-	698,807	698,807
	Expenditures			
	Debt Service			
601	Bond Principal	370,000	425,000	475,000
611	Bond Interest	287,208	271,307	205,054
620	Fiscal Agent Fees	2,694	2,500	944
	Total Expenditures	659,902	698,807	680,998
	Revenues Over/(Under) Expenditures	(659,902)	-	17,809

Fund 318 – 2009A GO Bond (2016A)

The General Obligation Improvement Bonds, Series 2009A, were issued in December of 2009 in the original amount of \$5,515,000. The bonds were used for acquisition of the existing public works facility, construction of a new salt storage building, sewer improvements and to refund the General Obligation Improvement Bonds, Series 2003A (Fund 312). An advance refunding was done on these bonds in 2016. These bonds will be called February 1, 2018. The debt is being repaid by special assessments, property tax levy, city sales taxes, water and sewer funds.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Revenues			
310100	Current Year Taxes		66,835	78,750
310200	Delinquent Taxes			
361100	Principal - Current		82,145	77,478
361110	Principal - Delinquent			
361120	Principal-Prepaid			
361130	Principal-Deferred			
361200	Interest - Current		66,179	63,391
361210	Interest - Delinquent			
361220	Interest-Prepaid			
361230	Interest-Deferred			
361300	Penalty/Interest		1,000	1,000
392010	Transfers In		232,247	215,576
	Total Revenues	-	448,406	436,195
	Expenditures			
	Debt Service			
601	Bond Principal	290,000	300,000	300,000
611	Bond Interest	156,506	147,656	138,656
620	Fiscal Agent Fees	944	750	944
	Total Expenditures	447,450	448,406	439,600
	Revenues Over/(Under) Expenditures	(447,450)	-	(3,405)

Fund 319 – 2010A GO Bonds

The General Obligation Improvement Bonds, Series 2010A were issued in November of 2010 in the original amount of \$3,955,000, carry a net interest rate of 2.74% and mature in 2031. The bonds were used to refund the General Obligation Utility Revenue Bonds, Series 2002-Fund 311, and to finance public improvements: water tower, #311,310 water projects, phase II sewer trunk line, #405,407,408,411,412,432 and 434 sewer projects. The debt is being repaid by special assessments, city sales taxes and sewer fund. No levy.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Revenues			
361100	Principal - Current		51,051	54,817
361110	Principal-Delinquent			
361120	Principal - Prepaid			
361130	Principal-Deferred			
361200	Interest - Current		46,915	50,601
361210	Interest-Delinquent			
361300	Penalties & Interest		1,700	1,700
362100	Investment Interest			
392010	Transfers in		292,047	255,000
	Total Revenues	-	391,713	362,118
	Expenditures			
	Debt Service			
601	Bond Principal	300,000	310,000	315,000
611	Bond Interest	87,063	80,963	74,319
620	Fiscal Agent Fees	944	750	944
720	Transfer Out			
	Total Expenditures	388,007	391,713	390,263
	Revenues Over/(Under) Expenditures	(388,007)	-	(28,145)

Fund 320 – 2012A GO Bonds

The General Obligation Improvement Bonds, Series 2012A were issued in July of 2012 in the amount of \$2,500,000, carry a net interest rate of 1.93% and mature in 2026. The bonds were used to refund the General Obligation Bonds, Series 2003B (Fund 313) on August 1, 2012 and the General Obligation Bonds, Series 2005A (Fund 314) on February 1, 2013. The debt is being repaid by special assessments, city sales taxes, and the special assessment deficiency fund. No levy.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Revenues			
310200	Delinquent Taxes			
361100	Principal - Current	69,390	24,603	24,603
361110	Principal-Delinquent	331		
361120	Principal - Prepaid			
361130	Principal - Deferred			
361200	Interest - Current	24,254	20,433	20,433
361210	Interest-Delinquent	52		
361230	Interest - Deferred			
361300	Penalties & Interest	200	500	
392010	Transfer In	191,476	236,662	197,539
	Total Revenues	285,703	282,198	242,575
	Expenditures			
	Debt Service			
601	Bond Principal	250,000	250,000	150,000
611	Bond Interest	33,135	31,448	29,798
620	Fiscal Agent Fees	944	750	944
630	Bond Expenses			
750	Transfer Out			
	Total Expenditures	284,079	282,198	180,742
	Revenues Over/(Under) Expenditures	1,624	-	61,833

Fund 321 – 2012B GO Improvement Bonds

The General Obligation Improvement Bonds, Series 2012B were issued in September of 2012 in the amount of \$3,155,000, net interest cost of 2.2436% and mature in 2033. The bonds were used to finance Projects; #442 Sewer, #314 Miller Trunk Water and #432 LaVaque Sewers. The debt is being paid by special assessments and city sales tax.

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Revenues			
334999	Other State Grants & Aids			
361100	Principal - Current	57,633	63,451	60,797
361110	Principal - Delinquent	985		
361120	Principal - Prepaid	94,536		
361200	Interest - Current	71,728	76,742	74,307
361210	Interest - Delinquent	1,229		
3612230	Interest - Deferred	1,284		
361300	Penalties & Interest	882		
392010	Transfers In	59,665	60,401	40,119
	Total Revenues	<u>287,942</u>	<u>200,594</u>	<u>175,223</u>
	Expenditure			
	Debt Service			
601	Bond Principal	135,000	135,000	140,000
611	Bond Interest	67,544	64,844	62,094
620	Fiscal Agent Fees	944	750	944
	Total Expenditures	<u>203,488</u>	<u>200,594</u>	<u>203,038</u>

Fund 322 – 2014A GO Improvement Bond

These bonds were issued in December 2014 in the amount of \$2,170,000, carrying interest rate of 2.207% to refund Series 2007A and to crossover refund 2007B for an interest cost savings.

Budget Detail

		2015 Actual	2016 Original Budget	2017 Budget
	Revenues			
361100	Principal - Current		41,184	22,646
361200	Interest - Current		39,290	21,758
362100	Investment Interest	1,588		
392010	Transfers In		155,326	227,100
	Total Revenues	<u>1,588</u>	<u>235,800</u>	<u>271,504</u>
	Expenditures			
	Debt Service			
601	Bond Principal	770,000	185,000	215,000
611	Bond Interest	33,303	50,050	46,050
620	Fiscal Fees	944	750	750
	Total Expenditures	<u>804,247</u>	<u>235,800</u>	<u>261,800</u>
	Revenues Over (Under) Expenditures	<u>-802,659</u>	<u>0</u>	<u>9,704</u>

Fund 350 - Special Assessment Deficiency Fund

Accounts for the accumulated resources to ensure debt service payments of bonds in cases where special assessments have been deferred or collections are not sufficient.

Transfers Out for 2017 are:

Fund 319 - \$27,806

Budget Detail

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Revenues			
361100	Principal - Current	19,899	1,021	1,021
361110	Principal-Delinquent			
361120	Principal - Prepaid			
361130	Principal - Deferred			
361200	Interest - Current	2,003	856	856
361210	Interest-Delinquent			
361230	Interest - Deferred			
361300	Penalties & Interest			
362100	Investment Interest	2,356		
362110	Checking Account Interest	1,036		
362160	Gain (Loss) on Sale of Investments			
392010	Transfers In			
	Total Revenues	25,294	1,877	1,877
	Expenses			
432500	Sewer Improvements			
471000	Transfer Out	194,763	248,356	27,806
	Total Expense	194,763	248,356	27,806
	Revenues (Under) Expenditures	(169,469)	(246,479)	(25,929)

Enterprise Funds

Fund 601 - Water Enterprise Fund

This fund accounts for the activity of providing water services to the public. The Hermantown Utility Department is responsible for the distribution of treated water. The City purchases all drinkable water from the City of Duluth. The current water utility rate is \$8.08 and will increase to \$8.48 per 1,000 gallons.

Utility Commission/Water Department Objectives

- To consider and make recommendations to the City Council with respect to improvements to be constructed and financed pursuant to Chapter 429 of the Minnesota Statutes.
- To administer the public utilities provided by the City of Hermantown.
- To perform such other functions as made by resolution of the City Council delegated to it.
- Provide an adequate supply of water. Current city water storage includes a 150,000 gallon elevated storage tank at Ugstad Road/Arrowhead Road and a 600,000 gallon elevated storage tank at Ugstad Road/Hwy 53. These two tanks have sufficient capacity to provide for two days of average daily demand if the city should lose its water supply.
- The city's current water system also includes 63.647 miles of water mains and 535 hydrants for fire control.
- The Public Works Director is responsible for leading the maintenance of city water mains.

Age of System	56 Years
Total Miles of Water Main Added From 1960 to 1990	46 Miles
Total Miles Added From 1990 to 2001	6.5 Miles
Total Miles Added From 2001 to 2003	1.68 Miles
Total Miles Added From 2003 to 2011	8.54 Miles
Total Miles Added 2012	.45 Miles
Total Miles Added 2013	.12 Miles
Total Miles Added in 2014	.21 Miles
Total Miles Added in 2015	.14 Miles
Total Miles of Water Main	63.647 Miles

Total Number of Fire Hydrants Added 1960 to 1990	351
Total Number of New Fire Hydrants 1990 to 2001	55
Total Number of New Fire Hydrants 2001 to 2003	19
Total Number of New Fire Hydrants 2003 to 2012	102
Total Number of New Fire Hydrants Added 2013	1
Total Number of New Fire Hydrants Added 2014	2
Total Number of New Fire Hydrants Added 2015	5
Total Fire Hydrants	535

Average Water Usage 2003	150 Million Gallons
Average Water Usage 2009	156 Million Gallons
Average Water Usage 2013	154 Million Gallons

One 150,000 Gallon Water Tower
 One 600,000 Gallon Water Tower
 One Booster Pumping Station

Authorized Personnel

The Water Enterprise and Sewer Enterprise fund includes authorized personnel as follows; Utility Clerk and Utility Workers.

The wages for these employees are split between the Water & Sewer Fund at a ratio of 60/40.

FTE Equivalent Employees

3.51

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	PERCENT CHANGE
101-151	Salaries/Wages	289,709	372,743	28.7%
201-499	Supplies/Services/Maintenance & Depreciation	1,023,252	1,025,327	0.2%
540-598	Capital Outlay	36,500	1,969	-94.6%
720	Transfer Out	48,000	153,437	219.7%
	Total Expenditures	1,397,461	1,553,476	11.2%

Budget Commentary

The Utility Commission agreed to increase water rates to \$8.48 per 1,000 gallons (from the current rate of \$8.08 per 1,000 gallons).

As the City acquires more water infrastructure, the depreciation expense will increase. Transfers out are applied to debt payments in the debt service funds.

Budget Detail

		2015 Actual	2016 Original Budget	2017 Budget
	Revenues			
341070	Assessment Search		4,000	5,000
361300	Penalty/Interest	216		
362100	Investment Interest	25,878	30,000	30,000
362110	Checking Account Interest	1,175	1,200	
362150	Interest Income/City Contracts	373	400	
362160	Gain (Loss) on Sale of Investments	(5,718)		
362250	City Property Lease	44,273	50,199	39,725
362990	Miscellaneous Revenue	51,436	10,000	12,000
371400	Metered Water Sales	1,187,945	1,225,519	1,297,482
371450	Metered Truck Fill Station	2,083	2,500	2,200
371500	Water Hookups	28,100	24,000	26,000
371710	Service Charge	79,280	76,392	77,112
371720	Front Foot Water Cash	17,083	6,500	6,500
379999	Late Fee	12,760	10,000	10,000
392010	Transfers In	1,500	0	0
	Total Revenue	1,446,384	1,440,710	1,506,019

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Expenses			
494300	Water Distribution			
	Salaries & Wages			
101	Full Time Employees - Regular	123,437	114,050	157,278
102	Full-Time Employees - Overtime	6,728	6,651	6,616
103	Part-Time Employees - Regular	407	542	
121	PERA Contributions - Coordinated	9,643	9,053	11,735
128	Social Security	5,998	7,517	9,701
129	Medicare	1,403	1,758	2,269
131	Health Insurance	37,544	39,302	61,864
133	Life Insurance	226	210	221
134	Disability Insurance	653	638	696
151	Workers Compensation	5,939	5,808	4,910
	Supplies/Services & Maintenance			
207	Safety Training Supplies	10		
212	Motor Fuels	1,582	4,000	4,000
221	General Supplies	2,137	4,000	4,000
228	Utility System Maint	(574)	3,000	3,000
315	School & Conference	650	500	500
317	Personnel Testing Physical	184		
331	Travel Expense	238	300	300
361	General Liability Insurance			6,300
382	Water Purchases	665,752	745,000	745,000
404	Equipment Maintenance	3,449	3,000	3,000
406	Vehicle Maintenance	521	600	600
413	Equipment Rental	624	10,000	10,000
417	Uniform Rental	317	140	180
451	Dues & Subscriptions	675	700	750
460	Permits & Licenses			
470	Booster Pump Repairs	32	750	750
471	Water Line Repairs	31,990	25,000	25,000
472	Hydrant Repairs	15,161	10,000	10,000
495	Property Damage Reimb. By Insurance			
499	Miscellaneous	65	500	500
	Capital Outlay			
540	Office Equipment/Furnishings			
544	Motor Vehicles	17,456	23,500	
580	Other Equipment		13,000	1,969
	*continued			

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Expenses			
494400	Water Administration & General			
	Salaries & Wages			
101	Full-Time Employees-Regular	76,731	76,493	84,981
102	Full-Time Employees-Overtime	278	176	
103	Part-Time Employees - Regular	2,588		
111	Severance Pay/Vacation	2,965		
121	PERA Contributions-Coordinated	15,371	5,750	6,313
128	Social Security	4,541	4,753	5,269
129	Medicare	1,062	1,112	1,233
131	Health Insurance	13,650	14,699	18,964
133	Life Insurance	192	202	184
134	Disability Insurance	331	405	382
151	Workers Compensation	492	590	127
	Supplies /Services/ Maintenance & Depreciation			
201	Office Supplies	28	50	55
202	Printing Supplies	263	600	600
209	Computer Supplies	74	100	105
301	Audit/Account Services	4,133	1,000	4,016
303	Banking Fees	629	1,400	2,000
305	Engineer Fees	883		
308	Legal Fees	2,036	2,000	2,100
314	Computer/Software Fees	450		500
315	School & Conference	225	150	150
319	Contracted Services	10,373	5,000	5,500
321	Telephone	1,852	1,800	1,900
322	Internet	117	150	150
323	Gopher One Call Locates	2,050	1,400	1,500
325	Postage	3,208	3,500	3,600
331	Travel Expense	1,152	825	900
351	Legal Notices Publishing	329	400	450
361	General Liability Insurance	5,685	5,537	1,422
381	Electricity	5,108	6,000	6,300
383	Heating Gas	1,579	3,500	3,600
384	Garbage Removal		950	
405	Computer Maintenance	5,753	6,400	6,599
413	Equipment Rental	4,416	10,000	
417	Uniform Rental			
420	Depreciation Expense	168,363	165,000	170,000
460	Permits & Licenses			
499	Miscellaneous	515		
	Capital Outlay			
540	Office Equip/Furnishings			
580	Other Equipment			
	Other Financing Uses			
720	Transfer Out	48,903	48,000	153,437
	Total Expenses	1,318,572	1,397,461	1,553,476
	Revenues Over/(Under) Expenses	127,812	43,249	(47,457)

Fund 602 - Sewer Enterprise Fund

Sewer fund accounts for the activity of providing sewer disposal services to the public. The Hermantown Utility Department is responsible for the collection of sanitary sewer waste. The Western Lake Superior Sanitary District purifies sanitary sewer waste. The rates are set by the Utility Commission and voted by resolution or motion by the City Council. The current sewer utility rate is \$8.87 per 1,000 gallons and will increase to \$9.42 per 1,000 gallons in 2017.

Objectives

- Provide adequate sanitary sewer operations, the city's sewer system consists of 68.378 miles of sewer mains but continues to expand based upon neighborhood petitions requesting an extension of services.
- The City Superintendent is responsible for leading the maintenance of city sewer mains.

Age of System

35 Years

Total Miles of Low Pressure Force main to 2014	7.31 Miles
Total Miles of Sewer Main Added From 1970 to 1990	24 Miles
Total Miles Added From 1990 to 2001	13 Miles
Total Miles Added From 2001 to 2003	6.688 Miles
Total Miles Added From 2003 to 2010	15.62 Miles
Total Miles Added From 2010 to 2012	1.30 Miles
Total Miles Added From 2012 to 2014	.37 Miles
Total Miles Added 2014 to 2015	.09 Miles

Total Miles of Sewer Main

68.378 Miles

Total Number of Manholes Added 1970 to 2001	270
Total Number of Manholes Added 2001 to 2002	123
Total Number of Manholes Added 2002 to 2010	354
Total Number of Manholes Added 2010 to 2012	27
Total Number of Manholes Added 2012 to 2014	13
Total Number of Manholes Added 2014 to 2015	3

Total Manholes

790

Average Sewer Usage 2003	110 Million Gallons
Average Sewer Usage 2009	133.5 Million Gallons
Average Sewer Usage 2013	154 Million Gallons

15 Pumping Stations

Phase I Trunk Sewer 2.4 Miles
 Phase II Trunk Sewer 2 Miles
 Phase III Trunk Sewer 2.47 Miles

Authorized Personnel

The Water Enterprise and Sewer Enterprise fund includes authorized personnel as follows; Utility Clerk and Utility Workers. The wages for these employees are split between the Water & Sewer Fund on a ratio of 60/40.

FTE Equivalent Employees

2.34

Budget Summary

		2016 ORIGINAL BUDGET	2017 APPROVED BUDGET	Percent Change
101-151	Salaries/Wages	191,047	245,250	28.4%
201-499	Supplies/Services/Maintenance & Depreciation	1,080,276	1,103,666	2.2%
540-590	Capital Outlay	62,300	1,969	-96.8%
720	Transfer Out	60,000	177,338	195.6%
	Total Expenditure	1,393,623	1,528,223	9.7%

Budget Commentary

The 2017 Sewer expense budget increased by 9.7% compared to 2016. Increases included negotiated wage, increased supplies, services, maintenance, and depreciation expense with the additional of sewer infrastructure. In addition, salary allocations were corrected from Street to Water and Sewer. Transfers out are applied to debt payments in the Debt Service Funds. Sewer rates increase to \$9.42 per 1,000 gallons.

Budget Detail

		2015 Actual	2016 Original Budget	2017 Budget
	Revenues			
341070	Assessment Search		4,000	
361100	Principal - Current	216		
361300	Penalties & Interest	214		
362100	Investment Interest	6,847	5,000	7,000
362110	Checking Account Interest	1,809	1,500	
362150	Interest Income/City Contracts	2,105	2,000	2,000
362160	Gain (Loss) on Sale of Investments	-7,223		
362415	Other Insurance			
362900	Miscellaneous Revenue	8,476		
371710	Service Charge	68,009	69,048	70,056
372400	Sew er Usage	1,249,302	1,193,530	1,269,563
372500	Sew er Hookups	44,000	35,000	35,000
372525	E-1 Pump			
372710	Sew er Permits	5,900	3,500	3,500
372715	Sew er Capacity Availability Fee	4,926	1,500	1,500
372720	Front Foot Cash	36,663	5,000	5,000
379999	Late Fee	11,940	12,000	10,000
	Total Revenue	1,433,184	1,332,078	1,403,619

		2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
	Expenses			
494500	Sewer Maintenance			
	Salaries & Wages			
101	Full-Time Employees - Regular	92,391	76,033	104,852
102	Full-Time Employees - Overtime	4,360	4,434	4,411
103	Part-Time Employees - Regular	431		
121	PERA Contributions - Coordinated	14,784	6,035	7,823
128	Social Security	4,625	4,989	6,467
129	Medicare	1,082	1,167	1,512
131	Health Insurance	27,867	26,202	41,243
133	Life Insurance	165	140	148
134	Disability Insurance	490	425	464
151	Workers Compensation	4,396	2,168	30
	Supplies/Services & Maintenance			
207	Safety Training Supplies	10		
212	Motor Fuels	244	3,000	1,000
221	General Supplies	1,254	1,000	1,500
222	Tires		500	
223	Bldg Repair & Maint Supplies			
228	Utility System Maint	(38)	1,000	1,000
229	Lift Station Maintenance	10,352	1,500	1,500
315	School & Conference	317	750	800
317	Personnel Testing Physicals	184		
331	Travel Expense	812	500	
361	General Liability Insurance			1,876
385	Sewer Charges	477,306	495,000	506,266
404	Equipment Maintenance	5,610	4,818	5,500
406	Vehicle Maintenance	1,457	1,200	
417	Uniform Rental	187	100	
451	Dues & Subscriptions	169	150	150
460	Permits & Licenses		250	250
475	Sewerline Repairs	22,090	22,000	22,000
476	Lift Station Repairs	3,238	15,000	15,000
477	I & I Maintenance	5,000	5,000	10,000
478	Sewer Cleaning	18,787	25,000	35,000
499	Miscellaneous	428	500	500
	Capital Outlay			
540	Office Equip/Furnishings			
544	Motor Vehicles		23,500	
580	Other Equipment	3,281	8,800	1,969
590	Pumping Plant & Lift Stations	4,793	30,000	
	*continued			

Expenses	2015	2016	2017
Sewer Administration & General	ACTUAL	ORIGINAL	BUDGET
Salaries & Wages		BUDGET	BUDGET
Full-Time Employees-Regular	51,153	50,995	56,654
Full-Time Employees-Overtime	185	118	
Part-Time-Regular	1,726		
Severance/Vacation Pay	1,977		
PERA Contributions-Coordinated	3,484	3,833	4,208
Social Security	3,028	3,169	3,513
Medicare	708	741	821
Health Insurance	9,094	9,799	12,642
Life Insurance	128	135	122
Disability Insurance	221	270	255
Workers Compensation	295	394	85
Supplies/Services/Maintenance & Depreciation			
Office Supplies	28	100	105
Printing Supplies	175	500	525
Computer Supplies	6	150	100
Motor Fuels	810		
General Supplies	(38)		
Audit/Account Services	2,988	2,100	4,016
Banking Fees	440	1,000	
Engineer Fees	233	1,500	1,500
Legal Fees	3,767	2,000	2,000
Computer/Software Fees	450		500
School & Conference		50	50
Contracted Services	208	250	250
Telephone	1,449	2,100	1,600
Internet	175	150	175
Gopher One Call Locates	1,367	1,000	1,050
Postage	2,139	2,400	2,400
Travel Expense	508	600	600
General Liability	8,004	8,374	6,054
Electricity	7,188	11,000	11,000
Heating Gas	987	2,800	2,800
Garbage Removal		500	
Equipment Maintenance		34	
Computer Maintenance	5,750	6,400	6,599
Equipment Rental			
Depreciation Expense	487,917	460,000	460,000
Miscellaneous		-	
Capital Outlay			
Other Equipment			
Other Financing Uses			
Transfer Out	59,656	60,000	177,338
Total Expenditure	1,362,284	1,393,623	1,528,223
Revenues/Over/(Under) Expenditure	70,900	(61,545)	(124,604)

Fund 605 - Street Lighting & Traffic Signalization Fund

Street Lighting fund was created to account for the activity of lighting and signalizing public streets. The City is responsible for the expenditures to maintain the traffic signals to control traffic flow at the following intersections: Cirrus Drive & Hwy 53, Ugstad & 53, Lavaque & 53, Arrowhead & 53, Loberg Ave & 53, Haines Rd & Hermantown Road, Maple Grove & Loberg, and Maple Grove & Stebner. A monthly franchise fee is charged through MN Power to residents at a rate of \$2 per month.

Also included in the franchise fees is \$40,000 for MN Energy gas franchise fee; \$24,000 to Fund 605 and the remaining \$16,000 to the General Fund.

Budget Detail

			2015 ACTUAL	2016 ORIGINAL BUDGET	2017 BUDGET
		Revenues			
318100		Franchise Fees	134,151	130,000	130,000
362100		Investment Interest	7,968	5,000	4,000
362110		Checking Account Interest	62	100	
362120		Interest - Interfund	14,000		
362160		Gain (Loss) on Sale of Investments	(3,557)		
		Total Revenues	152,624	135,100	134,000
	431150	Expenses			
		Supplies & Services			
227		Street Lights & Signs		5,000	5,000
305		Engineer Fees	14,200		
308		Legal Fees			850
413		Equipment Rental	7,420	7,500	7,875
420		Depreciation Expenses	3,216	3,000	3,210
	431160	Expenses			
227		Street Lights & Signs	3,871		200
381		Electricity	27,488		28,875
		Other Financing Uses			
720		Transfer Out	2,500	2,500	37,000
		Total Expenditures	58,695	18,000	83,010
		Revenues Over Expenditure	93,929	117,100	50,990

Glossary

Accrual Basis – The method of accounting under which revenues are recorded when they are earned (whether or not cash is received at that time) and expenditures are recorded when goods and services are received (whether cash disbursements are made at that time or not).

Activity – A cost center for recording charges for services delivered or functions performed. Each activity has an assigned manager who is responsible for planning and conducting the various approved objectives or workloads.

Ad Valorem – In proportion to value. A basis for levying taxes upon property.

Adopted Budget – The financial plan of revenues and expenditures for a fiscal year as adopted by the City Council.

Appropriation – An authorization made by the legislative body of a government that permits officials to incur obligations against and to make expenditures of governmental resources. Appropriations are usually made for fixed amounts and are typically granted for a one-year period.

Assessment – (1) The process of making the official valuation of property for taxation. (2) The valuation placed upon property as a result of this process.

Assets – Property owned by a government that has monetary value.

Balanced Budget – In a balanced budget: expenditures are exactly offset by an equal amount of resources including revenues and available carryover fund balances.

Bond – A written promise to pay (debt) a specified sum of money (called principal or face value) at a specified future date (called the maturity date(s)) along with periodic interest paid at a specified percentage of the principal (interest rate). Bonds are typically used for long-term debt.

Bonded Indebtedness – Outstanding debt by issues of bonds, which is paid by ad valorem or other revenue.

Budget – A plan of financial operation embodying an estimate of proposed expenditures for a given period and the proposed means of financing them.

Budget Calendar – The schedule of key dates which a government follows in the preparation and adoption of the budget.

Budget Message – A general discussion of the proposed budget presented in writing as a part of or supplement to the budget document. The budget message explains principal budget issues against the background of financial experience in recent years and presents recommendations made by the City Administrator.

Capital Improvement Program (CIP) – A five-year plan for proposed capital improvements. Also called Capital Improvement Plan.

Capital Outlay – Purchases of fixed assets that have a value of \$500 or more (\$200 or more for computer equipment) and a useful life of more than one year.

Certified Levy – Total tax levy of a jurisdiction, which is certified to the County Auditor.

City Council – The elected body of members making up the legislative arm of local government in Hermantown.

Debt Limit – The maximum of gross or net debt, which is legally permitted.

Distinguished Budget Presentation Awards Program - A voluntary awards program administered by the Government Finance Officers Association to encourage government to prepare effective budget documents.

Delinquent Taxes – Taxes that remain unpaid on and after the date on which a penalty for non-payment is attached.

Department – Basic organizational unit of City government responsible for carrying out related functions.

Division – An organizational unit within a department for purposes of administration and cost accounting.

Drug Abuse Resistance Education (DARE) – The DARE program gives kids the life skills they need to avoid involvement with drugs, gangs, and violence. The City has a DARE fund and one officer working at the Hermantown High School for DARE awareness.

Enterprise Fund – A fund established to account for operations financed and operated in a manner similar to private business enterprises. In this case, the governing body intends that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Expenditures – Where accounts are kept on the accrual or modified basis of accounting, the cost of goods received or services rendered whether cash payments have been made or not. Where accounts are kept on a cash basis, expenditures are recognized only when the cash payments for the above purchases are made.

Federal Deposit Insurance Corporation (FDIC) – Preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least \$250,000.

Fines & Forfeits – A sum of money imposed or surrendered as a penalty.

Fiscal Year – A 12-month period to which the annual operating budget applies and at the end of which a government determines its financial position and the results of its operations.

Full-Time Equivalent (FTE) – Equivalent of one employee working fulltime, or 2,080 hours per year. An FTE can be filled by any number of employees whose combined hours total 2,080 per year.

Fund – An independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives.

Fund Balance – The excess of a fund’s assets over its liabilities, generally called a reserve. A negative fund balance is sometimes called a deficit.

General Fund – The fund used to account for all financial resources except those reported in another fund.

Generally Accepted Accounting Principles (GAAP) – Accounting rules used to prepare, present, and report financial statements for a wide variety of entities.

General Obligation Bonds – When a government pledges its full faith and credit to the repayment of the bonds it issues, those bonds are general obligation (GO) bonds. Sometimes the term is also used to refer to bonds that are to be repaid from taxes and other general revenues.

Governmental Accounting Standards Board (GASB) – It is the highest source of accounting and financial reporting guidance for state and local governments.

Government Finance Officers Association (GFOA) – A professional association of approximately 17,500 state, provincial, and local government finance officers in the United States and Canada.

Governmental Funds – Funds used to account for the acquisition, use and balance of expendable financial resources and the related current liabilities-except those accounted for in proprietary funds. Under current GAAP, there are four governmental fund types: general, special revenue, debt service and capital projects.

Grant – A contribution of assets (usually cash) by one governmental unit or other organization to another. Typically, these contributions are made to local governments from the state and federal governments. Grants are usually made for specified purposes.

Hermantown Economic Development Authority (HEDA) – The Hermantown Economic Development Authority (HEDA) was established on April 6, 1992 by Resolution 92-29. HEDA is governed by a board of commissioners with seven members. All of the members of

the City Council shall be board members and two public members. The City is financially accountable for HEDA because the City Council approves the budget for HEDA, levies taxes (if necessary), and must approve any debt issuances.

Homestead Market Value Exclusion (HMVE) - Property tax relief delivered by excluding a portion of each qualifying home's market value from taxation. Homes up to \$76,000 in total market value receive maximum exclusion. Amount of exclusion decreases for homes valued at over \$413,800. Replaced MVHC at the end of 2011.

Infrastructure – The basic facilities, equipment, services and installations needed for the growth and functioning of a community. Includes roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems.

Intergovernmental Revenues – Revenues from other governments in the form of grants, entities, shared revenues or payments in lieu of taxes.

Legislative – Having the power to create laws.

Levy – (1) (Verb) to impose taxes, special assessments or service charges for the support of governmental activities. (2) (Noun) The total amount of taxes, special assessments or service charges imposed by a government.

Local Government Aid (LGA) – A state government revenue sharing program for cities and townships that is intended to provide an alternative to the property tax. LGA is distributed through a formula based on tax base, population, population decline, age of housing, and the percent of market value classified as commercial or industrial.

Major Program – The ten departments in the City of Hermantown government: General Government, Public Safety, Streets and Highways, Recreation, Sales Tax, Special Revenue, Debt Service, Water Enterprise, Sewer Enterprise, Street Lighting Enterprise.

Maturities – The dates on which the principal or stated value of investments or debt obligations mature and may be reclaimed.

Municipal State Aid Street System (MSAS) – Mechanism to identify and fund a “backbone” system of collector and arterial streets.

Object of Expenditure – Expenditure classification based upon the types or categories of goods and services purchased:

Typical objects of expenditure include:

- Personal services (salaries and wages);
- Supplies;
- Charges for service (utilities, maintenance contracts, travel);
- Capital outlay
- Debt service
- Other financing uses

Objective – Serving as a goal; being the object of a course of action.

Ordinance – A formal legislative enactment by the government body of a municipality.

Personal Services – A level of budgetary appropriations, which includes expenses for salaries, wages, and related employee benefits such as the City’s share of retirement and insurance.

Policy – A set of guidelines used for making decisions.

Program – Group activities, operations or organizational units directed to attaining specific purposes or objectives.

Proprietary Funds – Account for government’s ongoing organizations and activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses and transfers relating to the government’s business and quasi-business activities are accounted for through proprietary funds.

Public Employees Retirement Association (PERA) – PERA administers retirement plans providing defined benefit plan coverage to employees of local governments and school districts.

Reserves – Assets kept back or saved for future use or special purpose.

Retained Earnings – An equity account reflecting the accumulated earnings of the government’s proprietary funds (those funds where service charges will recover costs of providing those services).

Revenue – The term designates an increase to a fund’s assets which:

- Does not increase a liability (e.g., proceeds from a loan);
- Does not represent a repayment of an expenditure already made;
- Does not represent a cancellation of certain liabilities; and
- Does not represent an increase in contributed capital.

Securities Investor Protection Corporation (SIPC) – Federally mandated corporation that protects investors in certain securities from financial harm if a broker-dealer fails.

Special Assessment – A compulsory levy made against certain properties to defray part or all of the cost of a specific improvement or service deemed to primarily benefit those properties.

Special Revenue Fund – A fund used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Storm Water Pollution Prevention (SWPP) – Defines and controls the handling of storm water runoff from a construction site.

Supplies – A level of budgetary appropriations, which includes expenses for commodities that are used, such as office supplies, operating supplies, repair and maintenance supplies.

Tax Capacity – A valuation set upon real estate and certain personal property by the County Assessor as a basis for levying property taxes. The assessor determines the estimated market (resale) value of the property. This value is converted to tax capacity by a formula specified in state law. To be noted: HMVE reduces tax capacity.

Tax Increment Financing (TIF) – Financing tool originally intended to combat severe blight in areas which would not be redeveloped “but for” the availability of government subsidies derived from locally generated property tax revenues.

Tax Levy – The total amount to be raised by general property taxes for the purposes stated in the resolution certified to the County Auditor.

Taxes – Compulsory charges levied by a government to finance services performed for the common benefit.

Acronyms

CAFR	Comprehensive Annual Financial Report
CD	Certificate of Deposit
CIP	Capital Improvement Plan
CPI	Consumer Price Index
DARE	Drug Abuse Resistance Education
FDIC	Federal Deposit Insurance Corporation
FNLB	Federal Home Loan Bank
FNMA	Federal National Mortgage Association
FTE	Full Time Equivalent
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GFOA	Government Finance Officers Association
GO	General Obligation
HEDA	Hermantown Economic Development Authority
I & I	Inflow & Infiltration
LGA	Local Government Aid
MSAS	Municipal State Aid Street System
PERA	Public Employee Retirement Association
SAC	Sewer Availability Charge
SCBA	Self-contained Breathing Apparatus
SIPC	Securities Investor Protection Corporation
SWPP	Storm Water Protection Prevention
TIF	Tax Increment Financing
WAC	Water Availability Charge



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