

City Council Work Session

January 7, 2008

5:30 PM

Community Center

ATTENDANCE:

Mayor/Council (please check) Tussing, Ronquillo, Gaghen, Stevens, Pitman, Veis, Ruegamer, Ulledalen, McCall, Clark.

ADJOURN TIME: 7:15 p.m.

Agenda

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| TOPIC #1 | <i>Public Comment</i> |
| PRESENTER | |
| NOTES/OUTCOME | |

- The public comment period was opened. There were no speakers, and the public comment period was closed.
- Councilmember Veis advised there were no legislators in attendance, but two would be available for the next work session.
- City Administrator Volek referenced an e-mail she sent to Council on Friday advising that Lockwood was not ready to proceed with the discussion of the agreement. She advised the attorney and chairman of the committee were in attendance, but they were not ready to discuss. She said they would like to delay discussion until the 22nd.
- City Administrator Volek advised the election of the Mayor Pro-Tem had been added to the agenda of January 14th.
- City Administrator Volek advised the auditor was present so they would like to make the CAFR presentation first.
- City Administrator Volek advised they were starting to meet with the legislative delegation. She said a couple of weeks ago she sent everyone a copy of the revised legislative priorities. She said they would be meeting on Wednesday with the first legislative staff person, and advised any comments Council had needed to be sent to her by the following Tuesday morning.
- Councilmember Ruegamer asked if plans had been started for the trip to Washington, D.C. Ms. Volek said it would be the later part of February, and the plans had been started.

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| TOPIC #2 | <i>Board & Commission Reports</i> |
| PRESENTER | |
| NOTES/OUTCOME | |

- None.

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| TOPIC #3 | CAFR Presentation |
| PRESENTER | Pat Weber and Barb Aasen |
| NOTES/OUTCOME | |

Pat Weber introduced Barb Aasen, managing partner of Eide Bailey, who oversaw the City's Financial Report.

Ms. Aasen referenced the clear binder Council received that day and the Management Letter. She said it was very "boiler plate" with nothing unusual. She outlined the information, as follows:

✓ Communication with Mayor and Council

- Auditor's and Management's Responsibilities
- Review of Internal Control
- Accounting Policies
- Accounting Estimates
- No Significant Audit Adjustments
- No Significant Disagreements/Difficulties
- Other Matters

Ms. Aasen referenced "Other Matters" and said it included a best practices recommendation. She said the new auditing standards changed what was a finding and what was not a finding and lowered the threshold substantially. She said no more verbal comments or recommendations were allowed, and everything needed to be recorded in the government auditing standings report which was bound with CAFR. Ms. Aasen said it raised the level of awareness to any findings.

✓ Financial Statement Reporting

- Comprehensive Annual Financial Report
 - Unqualified opinion
- GFOA Certificate of Achievement
- Government Auditing Standards
 - Two financial statement findings

Ms. Aasen said the Comprehensive Annual Financial Report (CAFR) was a very well written document. She said it contained management discussion and analysis in the first part and lots of statistical information and trend analysis in the back portion. The trend analysis showed what had been going on with the City every year. Ms. Aasen recommended reading the management discussion and analysis and looking through the statistical information. Ms. Aasen said the City should receive a certificate of achievement for excellence in financial reporting.

Ms. Aasen said they issued a report on government auditing standards, Page 168 – 170. She said this year, with the new reporting standards, they had to report anything under internal control over financial reporting and compliance as a significant deficiency that was above clearly and consequential and below material. She said anything above material would be a material

weakness. She said this year the City had one significant deficiency (lower level finding) and one material weakness. She said the two findings were on Page 182. She said the first finding was on incurred but not reported health insurance liability accrual. She said the liability was overstated by about \$900,000. The reserves for health insurance were high, but the City would keep it because of unfunded post retirement liability that had to be reported next year.

Councilmember Stevens asked if the liability was for retired employees or current employees. Ms. Aasen said it was for both. She said the way GASB wrote the standard was if there were retirees allowed to stay on the plan and paid the same as current employees, there was a rate subsidy included because retired people would typically have to pay more than a current employee. She said there was an actuarial study that determined what the liability should be.

Mr. McCandless advised that the GASB 45 was mainly focusing on the unfunded post retirement benefits. He said the City allowed retirees to purchase insurance at the same rate as all other employees. He said there was no contractual or other obligation that the City had to provide health insurance access to retirees after the COBRA period expired. He said while it was stated as an unfunded liability, the City was not obligated to continue with the benefit. City Administrator Volek stated it was usually employees who had retired before age 65 but may have had 30 years service with the City, so they were allowed to stay in the plan until they were eligible for Medicare. Mr. McCandless said the benefits for the retirees tended to be greater than the amount of revenue collected from them; but, as a whole, the plan was fully funded and had a little over \$2 million reserve. Mayor Tussing asked if the Health Insurance Committee could decide to charge them more, etc. Mr. McCandless said that was correct. Mr. Weber explained that they knew there were claims incurred that had not been paid yet, so an estimated liability had to be put in the financial statement. Mr. Weber stated the reason they had to report a liability was because retirees spent more than they paid, so the City and other employees picked up the portion to pay for it, so it became a liability.

Ms. Aasen said the second finding was a material finding. She said of the dedicated land acquisition recorded on the City during the year, about 4.8 million was received prior to the current year. She said they should be recorded as an asset and a contribution at the time they were dedicated. Parks dedications were not being properly reported.

✓ Special Audit Areas – Federal

- Federal grants \$16M
- Compliance Requirements
 - Activities allowed, allowable costs, cash management, Davis-Bacon, eligibility, equipment, matching, procurement, program income, reporting, special tests.
- Major Programs
 - Community Development Block Grant
 - Home Investment Partnership Program
 - Capitalization Grant for Drinking Water
 - Federal Transit Capital and Operating Assistance Grant
- No Federal Finds in 2007

Ms. Aasen advised the City expended \$16 million of federal awards that year. She said they tested four major programs – the Community Development Block Grant, Home Investment Partnership Program, Capitalization Grant for Drinking Water, and the Federal Transit Capital

and Operating Assistance Grant for compliance. She said there were two federal findings last year that were both corrected and none this year.

✓ Special Audit Areas-Other

- Montana State Legal Compliance
- PFC Audit
- Building Inspection Fund

Ms. Aasen advised they were required to test several items provided by the State of Montana, and there were no issues at all with State of Montana legal compliance. She advised the PFC Audit and Building Inspection Fund were still pending completion and should be done within the next week or so. She said everyone at the City was very helpful and provided all the information they needed. Ms. Aasen asked for questions. Councilmember Veis said he was sure he would have questions for Mr. Weber and would ask him later so he would not waste everyone else's time.

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| TOPIC #4 | GSA Development Agreement |
| PRESENTER | Greg Krueger, DBP |
| NOTES/OUTCOME | |

Greg Krueger advised the DBP board president and past board president were in attendance. He distributed the most recent draft of the development agreement and said changes were being made almost daily, most recently on Friday. He said they had originally intended to develop a Memorandum of Understanding but the City pointed out the Development Agreement the Downtown Partnership had with the City said there needed to be something more binding by January 31st in order to encumber the tax increment funds. Mr. Krueger said the development agreement included all the entities except GSA. He said GSA would be the last entity to come into the process and it would not take place until the entire Solicitation for Offers (SFO) process had been gone through. He said once they were told what the foot print would cost, it would become part of the technical requirements of the SFO and they would begin soliciting for developers. Mr. Krueger said their goal was to have all of the questions answered and the site purchased by the developer for GSA by November 2008, with construction beginning in spring of 2009.

Ms. Volek advised the item was on the agenda for the joint city/county meeting on January 9th.

Mr. Krueger put together a PowerPoint outlining where the project started and where they were. He also provided a large display of the TID boundaries sunsetting on March 1, 2008; and the N. 27th Street TID boundaries that were within the old district. Mr. Krueger advised half of the Federal Courthouse site was in the old TID and half was in the new TID. Mr. Krueger said the "clock was ticking" and they hoped there would be no more changes. Mr. Krueger said Kim Barnett from GSA was present. Mr. Krueger said originally GSA looked for a temporary site for the courthouse and came to the DBP and Big Sky EDA for help because none of the government or private entities could find a temporary site to build a courthouse that would only last for five or six years. He said GSA and Big Sky EDA signed a memorandum of understanding that said they should move forward, and a possible footprint was identified that started the process of the

city and county swapping land. He said the process to determine design concepts of the plaza site was started with a lot of public input. He said a technical assistance grant was awarded to EDA to determine the cost of relocating the sheriff. He said the proposed footprint of the federal courthouse site was entirely in the old TID encompassing the old Wells Fargo Drive-up site, half of the Wells Fargo site, and the sheriff's office. Mr. Krueger said it was quickly determined that it would be too expensive so the site selected by all the stakeholders as the preferred site was located on the south side of the block originally identified, as well as the south side of the block now occupied by MDU. He pointed out the location of the White Family public parking lot, Yellowstone County's two parking lots (4 city lots), and the MDU building now opened by Big Sky EDA. He said the Yellowstone County Sheriff's Office was no longer included, because relocating the Sheriff's Office was determined to be economically infeasible (\$7 million). He said the site for MET had been transferred from the east/west configuration to a north/south configuration. Mr. Krueger pointed out the DHL property. Mr. Krueger said the City paid the County \$58,300 in trade for land. He said the agreement had been approved by City Council to replace the parking lot lost to the MET transfer center and up to \$237,016 was authorized to temporarily replace the parking. He advised if no GSA development took place, a permanent county parking lot would be built at Wells Fargo at a cost of up to \$567,500. Mr. Krueger described the development agreement between the City and DBP and how the remaining TID dollars would be spent. Mr. Krueger explained all of the land acquisition/assemblage necessary for the GSA project and described the DHL property's role in the development project. He advised the DBP board voted two weeks ago to authorize up to \$800,000 in tax increment to help subsidize the project, and allocated \$50,000 of the \$800,000 to professional services and have ordered appraisals of the land. He said the DBP board also allocated \$1 million of the remaining TIFD to the quiet zone project and asked Public Works to put it on the council agenda for a meeting in February. He said they would like to allocate the remaining funds for the one-way street conversions and pointed out that they were looking at creating a new downtown street lighting district that would replace all of the intersection lights. Mr. Krueger said he believed the appraised price of the assembled land would be between \$35 and \$40/sq. ft. and calculations showed \$751,850 TID funds were needed to make the project work, which was under the \$800,000 cap they had set and under the \$1.9 million cap set by the development agreement. He said their goal was to get the amount down even lower.

Councilmember Gaghen asked if one appraisal would be enough. Mr. Krueger said there could be several but a lot would be up to the developer that was selected by GSA.

Councilmember Veis asked if the City would still be responsible for building the county parking lot at the Wells Fargo site if Phase I moved forward but Phase II did not. Mr. Krueger said the City would be off the hook and would be released from the obligation. Councilmember Veis asked if that was stated in the agreement. Mr. Krueger said it was in the first section, and there would be a separate release document.

Councilmember Stevens asked how the county was with all of it. Mr. Krueger said the last time he talked with them, they were alright with it.

City Administrator Volek advised the City would receive a payment in the amount of \$252,000 for a portion of right of way that was about half of what was originally talked about. She said she had talked with the County Commissioners and they told her half of 26th would remain open to two-way traffic. She said because of County parking and the Sheriff's Department and the remaining open section between the two buildings, they may be interested in purchasing it from the City. She said it would have to be a separate negotiation. Ms. Volek said

the original documentation stated the City would be paid for the right of way upfront, but the new configuration obviated the agreement.

Mr. Krueger advised the price for the right of way had been fixed because they were not sure exactly how much of 2nd Avenue would be necessary, if any. He said in order to obtain the necessary footprint, at least 11' or 12' of 2nd Avenue would be needed. He said the only thing that could jeopardize the deal, at this point, was if appraisals came in below \$35/sq. ft.

Councilmember Ruegamer said it was very important to make it clear the City was paying \$35, or whatever the appraised value was, to the Whites and to make it clear they were being paid a premium for loss of future income on their lot. He said he did not want 90% of the people in Billings wondering why one person was being paid way over what everyone else was paid. He said it was the DBP's money and all Council was doing was approving the deal. He said the only complaint he had heard from the private sector was the land downtown was being inflated by overpaying the Whites for their property.

Mr. Krueger replied that was exactly what they were trying to do by fixing the prices per square foot and then allocating the additional dollars as being a grant based on revenue the lot was receiving. He said the appraiser felt the price set and the price being paid to the White family was very much in line.

Bill Honaker advised there were two ways to look at the appraised value. He said one way was based on land value and the other was based on income it was producing. He said the income producing value would be far greater than the land value.

Councilmember Ruegamer said it was confusing because using the income approach and the land approach, it would be used for the land, and the White's are losing income. He said it was a very complex matter.

Mr. Krueger pointed out that the deal freed the City from the obligation to replace the 77 landscaped spot requirement the County had asked the City to pay for.

Councilmember Gaghen asked where 2nd Avenue would be closed. Mr. Krueger said there would be no closure of 2nd Avenue. He said, if anything, parking may be restricted and would not affect the 10-minutes only spot in front of Wells Fargo. He said there was one landowner they had not talked to. He said they will be impacted by the MET Transit Center, so it was time to start visiting with them about it.

Mr. Krueger said all along they had tried to make the Wells Fargo site half of the courthouse site. He said if GSA would build a \$26 million courthouse, the taxes on the property would replace the TID dollars in one year. Mr. Krueger said the County would probably buy the DHL property, but even if they were not successful, the parking grant to the County would relieve the City/DBP from any further obligation. He said they would eventually like to expand the N. 27th street district, but it would still be smaller than the present downtown district.

Councilmember Veis asked if money for the quiet zone would be available February 15th if the project moved forward. Mr. Krueger advised they had a meeting with Dave Mumford that day and asked for council consideration the first meeting in February.

Councilmember McCall asked if any other changes were anticipated before the end of the week. Mr. Krueger said he hoped not but if there were, they would be minor word changes only. He said the County Commissioners and County Attorney had all agreed to that point.

Councilmember Stevens asked when they would see conceptual drawings for the transit center. Tom Binford said they were available currently, but they were planning a presentation at the March 3 Work Session.

Councilmember Gaghen said all parties involved needed complimented on the project. Mr. Krueger thanked Steve Wahrlich and Bill Honaker for their time.

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| TOPIC #5 | <i>City-Owned Land Report</i> |
| PRESENTER | Bruce McCandless/Mark Jarvis |
| NOTES/OUTCOME | |

Bruce McCandless referenced the map and spreadsheets he distributed. He said the maps showed all of the properties presently owned by the City, and the spreadsheet described the property. He said the report was the result of a council initiative in 2004. He said the reason it had taken so long to present was because the process for identifying the property was extensive and involved all city departments. Mr. McCandless advised a lot of the property was owned by the Parks Department, and they did not have a complete inventory of property they owned. He said for the past six to eight months, Parks had conducted inventory and was not quite done. Mr. McCandless stated the parcel data was derived from state and county records and produced by the City GIS division. Mr. McCandless recognized Tom Tully with IT, who put together the maps and spearheaded the effort. Mr. McCandless reviewed the information on the maps and explained how it related to the spreadsheet.

Councilmember Veis asked if the City had the ability to get rid of the parcels without an appraisal. Mr. McCandless said it could be done. He said the City's land disposal process did not require an appraisal, and the land could be transferred after a public hearing and by council resolution approved by at least six councilmembers. Mr. McCandless said the property could be conveyed at no cost or at a price determined to be the appropriate amount. City Administrator Volek said the advantage would be putting the land back on the tax roles; and in many cases, the adjacent property owners maintained the property.

Mayor Tussing asked for the total number of acres. Mr. McCandless said he did not know but the spreadsheet reflected the City owned over 700 separate parcels, so the City was a major landowner. Mr. McCandless commented many of the parcels were very small.

Mr. McCandless said Councilmember Jones had asked staff to identify the undeveloped parks that would be good candidates for selling and developing. Councilmember Veis noted the subject came up a lot, and the database was important to keep up. He asked how it would be kept up and who would be responsible for it. Mr. McCandless agreed with Councilmember Veis and said now that the database had been developed, it would be easier to keep current. City Administrator Volek said she felt it would be necessary to update the database every other year.

Mark Jarvis advised he had worked with an intern to develop the database. He said they tried to contain all the information they could on parks into one central file so it could be easily accessed and sorted. He said they would also like to be able to make the information accessible to the public. He said they had been concentrating on identifying undeveloped park land. He said it was very important to develop an evaluation criteria on property so it could be objectively determined if the land should be sold, moved to another city department, or retained for a park.

Councilmember Ulledalen said he felt undeveloped park land that would never be developed as park should be sold. Mr. Jarvis said that was what they needed to identify through the criteria.

Councilmember Stevens asked if there was a process for subdivisions to look at park dedications and determine if they were developable as parks. Mr. Jarvis advised they were in the process of developing criteria for that purpose. He said they were trying to follow the National Recreation and Parks Association guidelines for park land, which recommended a minimum of five contiguous acres for a neighborhood park, with an optimum of ten acres.

City Administrator Volek advised that in July 2005 when the City donated land for what became Southern Lights, there was a council initiative to direct staff to develop a policy for selling or donating city-owned property. She said the policy was Section 22.902 of the City Code. She said a staff committee consisting of Tom Binford, Dave Mumford, Mike Whitaker, and Brenda Beckett reviewed and suggested obtaining council direction on land donations. Ms. Volek advised there was a survey attached to the handout for council to complete and return by next Monday, if possible.

Councilmember Veis asked if someone outside the Parks Department would identify park parcels to be disposed of. Mr. McCandless said there was a staff committee that helped put together the maps and the spreadsheet. He said the committee would focus on the very small pieces with no productive use and decide how to dispose of them.

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| TOPIC #6 | <i>Water & Sewer Extension Requests (Lockwood, Blaine's, Golden West)</i> |
| PRESENTER | |
| NOTES/OUTCOME | |

City Administrator Volek distributed a handout. She said the City had been approached by two entities, Blaine's Mobile Home Court through an attorney, and from Ken Murtagh on behalf of Golden West Estates, seeking water to their areas. Ms. Volek referenced the water and waster water service area ordinance that encouraged the promotion of annexation into the corporate city limits when it came to water and sewer service. She said a prerequisite was that the applicant should complete the annexation requirements. Ms. Volek said Golden West Estates on the south side of Molt about a mile north of Rimrock was a large lot county subdivision, who approached the City in 2003 requesting annexation and city services. She said on October 14th, staff recommended denial because the homeowners were unwilling to commit to the 3-year timetable for road paving. She said the City finally annexed the land on condition that 100% of owners agreed to upgrade all facilities within 10 years. She said 100% of the owners were unable to agree to update all infrastructure to city standards, so in 2004 City Council was asked by the homeowners' association to de-annex the property.

Ms. Volek advised Blaine's Mobile Home Court, south of the Yellowstone River and north of the City landfill, was being represented by Mr. Tolliver. She said the current water on the site was under a frequent boil order. She said the site was not within any annexation area; and staff advised her the estimated cost of extending water to the area was approximately \$400,000 not including the individual hook-ups.

Councilmember Ronquillo asked if there was water to the landfill. Mr. Mumford said there was not. Ms. Volek advised the mobile home court would present significant challenges if annexation became involved. She said the last meth lab busted was on the property.

Councilmember Stevens commented that if Blaine's was under a boil order, they had problems with the septic systems. She said if their wells were contaminated, that meant the water running to the river was contaminated. Mr. Mumford said they had been under a boil order for over 20 years. Councilmember Stevens said running water to them would only exacerbate the contamination problem.

Councilmember Ruegamer asked if the City could charge a premium. Ms. Volek advised the residents in Golden West said they would be willing to pay as much as a 50% premium. She said they had not talked premium to Blaine's. She said the City did not have a funding source to build the line. Ms. Volek said council could either instruct staff to investigate accepting waivers of protest in lieu of annexation for one or both of the areas or deny the requests. She said staff recommended denial of both requests.

Councilmember McCall asked what other options Blaine's and Golden West would have. Ms. Volek said Golden West was currently hauling water. She said they estimated it would cost \$80,000 per household to bring their roads up to standard because there were only 15 to 20 houses there. Councilmember Gaghen said the slope of the street was the big concern, and they did not want the road paved because they would have no traction.

Ms. Volek said in the case of Blaine's, they could install some type of a treatment lagoon or treatment system.

Councilmember Veis said the easiest way for them to solve their problem would be to hook up to the City of Billings water system but not the only way. He said when they saw Billings was willing to extend waste water service to Lockwood, they felt this would be the cheapest and easiest way to solve their water problems.

Councilmember Ulledalen asked if the State of Montana could solicit the City to sell clean water to them. Councilmember Veis said it could not.

Councilmember Clark asked if the item would come before Council. Ms. Volek said it could, but there were no representatives attending that evening. She said a public hearing could be set to allow them to make a presentation. She said the staff recommendation would not change as a result of it. Councilmember Clark asked if there had been a formal written request. Ms. Volek said she had a formal written request from Mr. Tolliver but nothing from Golden West.

Councilmember Veis said the two requests had been spurred by the Lockwood Water and Sewer Agreement. He said Council would be asked why Lockwood got a deal, and they did not. He said his opinion was that it was about scale and the direction of council. He said Lockwood was much bigger in scale than Blaine's and Golden West, and Council had an initiative to have Public Works determine what it would cost to annex Lockwood.

City Administrator Volek advised the Council could affirm its current policy. She said most local governments did not provide ad hoc services to communities not willing to annex.

Mayor Tussing asked if Council wanted the requests of Blaine's and Golden West on the agenda. It was the consensus of the Council to inform the owners they needed to pursue annexation first.

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| Additional Information: |
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Councilmember Ruegamer said they needed to pick a district representative for the Montana League of Cities and Towns. He said Councilmember Clark had expressed interest but if anyone else was interested, a vote could be taken. Ms. Volek said she would put it on the agenda.

Mayor Tussing said he was missing something about the statewide computer center. He said it would only generate one or two employees and it would not generate any tax revenue because it was state land. He asked why the City was so concerned that it be here.

Councilmember Veis said the parcel in Billings was on Transtech Center land. Ms. Volek said there were one or two initial employees but there would be 10 or 12 long term. She said the City was a participant in the state computer system, so it would be some benefit. Councilmember Veis said it was a pet project of Senator Essman. He said Council had asked Mr. Essman for his support, so Council should support him.

Councilmember Ronquillo said he talked to the new district director of the highway department who told him he would like to attend a future work session to talk about State Avenue, Moore Lane, Rimrock, and several other projects. Ms. Volek said she had a meeting with him on Friday to talk about Shiloh Road, so she could schedule him for a work session.

Councilmember Veis asked about the Shiloh Road committee. Ms. Volek said Councilmembers McCall, Ulledalen, and Clark were interested. Councilmember Veis said in the past there was a representative from Wards III, IV, and V. It was the consensus to place the appointment of new committee members on a future agenda.