

CITY COUNCIL

7:00 P.M.

April 2, 2007

Present: Scott M. Johnson, Mayor
David Gustafson
James P. Kelly
Pat Kelley
Steven Marolt

Absent: Pat Kelley

Tom Smith, City Administrator
Wayne G. Johnson, City Attorney

Also attending: Steve Wischmann, CPA, K.D.V.; Jeff Lodin, PG, S.G.H.; Bernie Zupancich, George Pope; Forrest Johnson, Lake County News-Chronicle

Mayor Johnson called the meeting to order at 7:00 p.m.

Motion J. Kelly, second S. Marolt to approve the minutes of March 19, 2007, Council Meeting. THE MOTION CARRIED

FINANCIAL –Presentation of the 12-31-06 End of Year Audit Report was presented by Mr. Steve Wischmann, CPA, K.D.V. The Audit Report consists of two books; the first, Management Letter included some new information/changes. The audit did not look at each city transaction but rather a statistical sampling and transactions which hold greater risk. This gives reasonable but not absolute assurance on which we provide opinion on in the second book. Financial statements are the responsibility of management and the audit provides an opinion on them. They have issued a clean and unqualified opinion – THE BEST YOU CAN RECEIVE. He stated that “Overall, your controls are better than most for a city of your size.”

The city’s overall fund reserve was at \$971,000 meaning the city has about eight months of operating revenue in the fund balance, above the state requirement. The Municipal Liquor Store had a profit of \$123,000 and the City General Fund has been consistent and shows a surplus. Revenues by source are consistent from year to year. Capital expenditures increased due to new squad car and snow removal equipment, which were budgeted.

The water fund is funding about 50% of the depreciation from revenue. This is typical of most cities and rates need to go up in every city they have been working with including Silver Bay. Recommend that the rates charged be evaluated. Sewer rates have been consistent in 05 and 06; water has had a consistent decline from 2003.

Pulling everything together to get an overall position:

\$2,763,406 = Total Cash and Investments (consistent with prior years)

\$8,000,000 = Buildings

\$3,000,000 = Improvements

\$2,300,000 = Equipment
\$6,000,000 = Depreciation

Liabilities are significantly lower than most cities. You have some capital leases in governmental activities; PFA loans for water and sewer. Total liabilities are \$1,781,000, which is good news.

Change in new assets displays our long-term position. Governmental activities improved by \$115,951; business activities (water, sewer, and liquor) improved by \$21,000. We are better off at the end of 2006 than we were at the end of 2005.

Airport fund has a slight deficit at the end of the year of \$38,938. That did drop from \$45,000 from last year. This is not uncommon for city airports.

Mary Mac Donald Business Center revenues were \$73,000 and expenses of \$69,000.

Discussion of the Taconite Reserve Fund related that it had been drawn down to help fund utility improvements at the Business Park and cleanup of the Bell Circle Apartments. Mayor Johnson questioned whether we properly authorized the expenditure of the funds without having passed a resolution and perhaps we should have to help track these funds. Consideration should be made to commit to replenishment of this fund through potential sales/revenue. J. Kelly and D Gustafson stated that the intent for replenishment of this fund is a city goal. There has been no resolution stating that money is being taken out of the taconite reserve and put into the Business Park and Bell Circle project and has been reported in the audit accordingly. W. Johnson stated that the only time you can make a transfer is as specified in the statute. Mr. Wischmann clarified that no disbursement could be shown from this fund since no resolution had been issues up until this point. Mayor Johnson recommends future discussion on this as a proposed resolution. W. Johnson said that we need to look at the statute first as to the authority and limitations relative to revenue balances. Mr. Wischmann suggested that we also look at the length of time for recovery of the Business Park and Bell Circle deficits. NEXT AGENDA

The audit process is very well done the book are in very good shape. The audit goes very smoothly and complements to Cheryl Marolt and Tom Smith are in order.

PETITIONS, REQUESTS & COMMUNICATIONS –

Water Utility Project – Mr. Jeff Ledin, PG., S.G.H. presented a proposal to upgrade the 1950's water system. The Public Facilities Authority low interest loan has been approved in the amount of \$1 million for the complete project. After discussion it was decided to scale back the project to include the most needed improvements; individual water metering was excluded from the project. This project is intended to provide general upgrades to you water system; maintain system capacity at its current state; return the 500,000-gallon reservoir back in service and miscellaneous system improvements.

Request is made to the council to advertise for bids:

Timeline:

Public Facilities Authority loan – approved

MN Department of Health – approved
Pre-Bid Conference – April 24
Bid Opening – May 1
Contract Award – May 7
Contract Start – June 1
Substantial Completion – Aug 31
Final Completion – Sep 21

PFA Loan is for 20 years at 2.3% for \$1M project (calculated at a \$4.00 increase per unit per month); for a \$750K project (calculated at a \$3.60 increase per unit per month). Construction and engineering costs are estimated at \$762,000 and will be paid out over the 20-year period of the loan.

J. Kelly clarified that installation of water meters is not being completed at this time. It remains a need and is essential for determining infiltration and excess usage. It is fair to disburse the expense to those with the greatest usage. It will have to be done down the road; the cost for installation of individual meters would be \$250-300 for each of 900 houses.

Resolution 2007-#8, Authorize Approval Proceed with Advertisement for Bids for the 2007 Water System Improvement Project.

Roll call vote: Member Gustafson – aye
Member Kelly – aye
Member Marolt – aye

Chairman Johnson - aye
One Member - Absent

Resolution is adopted. W. Johnson will prepare the resolution.

Mr. Ledin stated Jan 29th letter advised three required actions: 1. The next step is that Department of Health must certify the project to the PFA; 2. The city must establish a dedicated source of funds to pay debt service on the loan; and 3. Submit a copy of the bid calculation. This must be completed before funds are available (approximately end of May). NEXT AGENDA

T. Smith stated that relative to Dedicated Funds, the city is working with Springsted Associates on both a water and sewer analysis with estimated completion in 4-5 weeks.

Gitchi Gami Trail Update – George Pope provided an update for the proposed trail alignment crossing on the Northshore Mining rail line. There has been no significant progress. Meeting was held January 22 at Northshore Mining with no representation from the City of Silver Bay. Mr. Pope was unaware of the meeting inspite being in contact with the principles involved in the project. February 14, Gitchi Gami Trails Association met. The trail route seems to be in agreement with all parties two years ago. Last year NSM proposed a bridge over the tracks rather than the culvert, which had been agreed upon. The issue with the proposed bridge is that the MN DNR determined that the approaching grade is too steep. NSM requested a second opinion. At a cost of \$5,000 to the State of MN, and engineering firm was hired and they agreed with the determination that it is too

steep. The whereabouts of the opinion is uncertain and no further action has been taken. Scott Harrison, President of the Gitchi Gami Trail Association has stated that he has a plan to encourage NSM to make some progress.

J. Kelly said that Parks and Rec's had received a letter that the underpass would be put in June during the shutdown. George Pope said that a meeting on Jan 22 identified installation in June of 2008. Until NSM agrees that the bridge can not work, progress is up in the air. Mayor Johnson asked T. Smith to research this topic.

The next step is when it gets to town. According to DNR it will go down Outer Drive and wipe out the petunias; the city has not made comment on this. S. Marolt asked why they are not using the shoulder of the road and George Pope's understanding is that it has to do with the number of times the trail crosses the road. It comes behind the arena, crosses Outer Drive and then the inner side of Hwy 61. They are not using the snowmobile trails.

George Pope was also at a recent meeting of the Silver Trail Riders and the latest proposal is that ATV's and snowmobiles use the same culvert so it would be a 14' wide culvert. He suspects this to be the next delay.

Letter to Mayor Kind from the Duluth-Superior Area Community Foundation asking us to sign a grant agreement of \$2,000 for a local play. Motion J. Kelly; second D. Gustafson that we sign a grant agreement of \$2,000 to support a local play. THE MOTION CARRIED

Certificate of Completion of Advanced Marina Management Training for Dave Oltman, March 26-31, 2007.

Mayor Johnson requested opinion from W. Johnson regarding conflict of interest concerning person serving on the Mary Mac Advisory Committee since she is a resident of the building. W. Johnson stated that there is no conflict. The Mayor understood that she was a neighborhood representative; not a major tenant. The response is that she is a neighbor and was the only applicant to fill the position.

City Shop Letter, City Atty. Johnson - When MN Power made application for easement was concerned that the shop may not be on city property, Request was made that the surveyor place the shop on the survey. There is a substantial encroachment on state land. Dept of Administration, Land Matters and Attorney General's office were contacted. The land was acquired from some environmental group and is under county management. Tom Martinson has been contacted and is working on it. Request has been made for land transfer rather than easement.

DEPARTMENTS

City Administrator – DNR - Co-operative Fire Protection Agreement – Chief Fredrickson. Recommend council to authorize agreement and rate sheet. This is a recurring contract. Motion J. Kelly; second D. Gustafson that we support the DNR – Co-operative Fire Protection Agreement as recommended. THE MOTION CARRIED

City Attorney – Joint Powers Agreement– North Shore Drug Response Team – have not heard from the County Attorney.

Agreement for Fire Chief & Compensation – Chief Frederickson has signed the agreement.

W. Johnson advised that the County lease at Mary MacDonald expired in January. The County has been reminded that they had not asked for an extension; he has now heard from the Lake County Department of Human Services that they would like to extend the lease; it has been prepared and signed under the same terms as the previous year. Motion D. Gustafson; second J. Kelly to renew the lease with Lake County Human Services. THE MOTION CARRIED

OLD BUSINESS

W. Johnson said that there is limited city authority on Bernie Zupancich's request for \$3,000 donation for Silver Beaver Days, July 28-29 promotion. We can extend it under the same statute which we used to fund the Jubilee. Motion J. Kelly; second D. Gustafson that we authorize expenditure of \$3,000 for the Silver Beaver Days.

Discussion: S. Marolt asked for previous donations in the past. There is \$5K in the budget; \$2K goes to Bay Area Historical Society annually, \$500 to North Shore Area Partners and other miscellaneous items. If we gave \$3,000 we would be over budget in this line item. J. Kelly disagrees because the budget is a plan. S. Marolt replied that when we give a donation, perhaps we should allocate what funds it is coming out of. THE MOTION CARRIED

NEW BUSINESS

J. Kelly reported on his recent trip to a conference. This was the first time the cities, counties, and school boards had a combined conference. There were over 800 attendees. The second day consisted of panel discussing major topics. There were many areas identified with similar issues being addresses (i.e. funding; educational spending; transportation, etc). The goal is to continue periodic discussion so that they can go to the League of MN Cities with common goals.

CLAIMS . Motion J. Kelly; second D. Gustafson that we pay the claims. THE MOTION CARRIED

Motion S. Marolt; second J. Kelly to adjourn at 8:40 p.m. THE MOTION CARRIED

Minutes taken by Mabel Tarlton

Scott M. Johnson, Mayor

Tom Smith, City Administrator