

**City of Woodbury
Audit and Investment Commission Minutes
May 4, 2021**

Pursuant to due call and notice thereof, a meeting of the Audit and Investment Commission was held at Woodbury City Hall, 8301 Valley Creek Road, on the 4th day of May, 2021.

Item 1: Call to Order / Roll Call

Chair Blake Darsow called the meeting to order at 7:30 a.m.

Upon roll call, the following members of the Audit and Investment Commission were present: Ross Dahlin, Blake Darsow, Jeanine Kuwik, John Lehman, and Richard Osborn.

Absent: Heidi Conrad and Andrew Naylor.

Others present: Judy Afdahl, Controller; Karl Batalden, Community Development Coordinator; Angela Gorall, Assistant City Administrator; Clint Gridley, City Administrator; Janelle Schmitz, Community Development Director; Kim Wilson, Council Member; and Roxy Nowicki, Recording Secretary.

Item 2: Oaths of Office

Oaths of Office forms were handed out to commission members for signature.

Item 2A: Approval of Minutes – November 12, 2020

Moved by Member Lehman, seconded by Member Osborn to approve the November 12, 2021 minutes.

Voting in favor: All present Voting Against: None Absent: Heidi Conrad and Andrew Naylor

Item 2B: Approval of Minutes – Parks and Trails Replacement Fund Joint Commission Meeting – November 4, 2020

Moved by Member Lehman, seconded by Member Osborn to approve the November 4, 2021 Parks and Trails Replacement Fund Joint Commission Meeting minutes

Voting in favor: All present Voting Against: None Absent: Heidi Conrad and Andrew Naylor

Item 3: Review of Parks and Trails Replacement Fund Council Directive

Ms. Gorall stated that in 2020 Council asked for recommendations on the financing approach for the Parks and Trails Replacement Fund. Both commissions approved a report (Parks and Trails Replacement Plan) which is available online. Part of that report was a recommendation that a Council Directive be created by the Audit and Investment Commission to provide some guidance to staff for this new fund. The City is currently in the middle of a public engagement process with regard to a parks and trails replacement fund and the potential use of franchise

Audit and Investment Commission Minutes

May 4, 2021

Page 2

fees. The report has been presented to Council and Council has been given authorization to move forward for the public engagement piece. There is a video on the City website, newsletters were mailed to residents, and listening sessions are scheduled. We would like to bring the Council Directive, as having been recommended by the commission, to Council at the June workshop.

Ms. Gorall continued by reviewing the Council Directive. The directive has five key areas:

1. Use of funds
2. Maintenance of parks and trails asset replacement plan
3. Fund balance
4. Franchise fees
5. Property tax

The City has a lot funds but does not have a directive for every fund. This is modeled after our Fund Balance Policy to maintain some consistency. The purpose of the directive is to provide some guardrails.

Ms. Gorall asked if there were any comments regarding the Use of Funds section.

Member Lehman began by handing out a copy of the Council Directive with his suggested changes.

After a short discussion of his proposed changes, it was decided to make the following changes to the directive:

- Under Use of Funds – leave original language and include some of Member Lehman's edits.
- Under Franchise Fees – leave original language.
- Add a Grants Section at the end and pull anything related to grants and move to this new section.

Mr. Gridley stated that at the May Council Workshop meeting, Council will review all the items related to parks and trails to prepare them for a June direction for the franchise fee which will be adopted in July. It can come back to the Commission at the June 28 meeting for final review and vote for formal recommendation.

Item 4: Housing and Redevelopment Authority (HRA) Fund Policy

Mr. Batalden stated that the Woodbury Housing and Redevelopment Authority (HRA) is a separate unit of government from the City, with the Mayor and Council Members serving as Chair and Commissioners. The HRA was created in 2006 and began offering loan programs to the community in 2009. Specifically, a first-time homebuyer program and a home improvement fund were established to assist low- and moderate-income households with either becoming homeowners or with access to capital.

Mr. Batalden continued by stating that beginning in the City Council budget cycle for the 2020 budget, some of the Council Members asked about the amount of the HRA fund balance and what an optimal fund balance should be, especially with relation to what is the amount of the HRA's annual property tax levy. Initially the HRA was going to try to establish policy parameters in 2020, but with the pandemic, the staff's energy and focus were rather directed to the 2021

Audit and Investment Commission Minutes

May 4, 2021

Page 3

Housing Action Plan. One of the deliverables of the 2021 Housing Action Plan that was adopted in April was to attempt to have an HRA Fund Policy put in place prior to the budget workshop in September 2021.

Mr. Batalden handed out a second page to the summary statement that was missed from the original packet that was sent out.

Mr. Batalden then went on to review the directive.

One note under item 1 on page 2 where it reads:

1. In the event that year-end HRA fund balance falls below two times the amount of the three-year average of annual expenditures. He meant to say annual expenditures plus loan program disbursements – it is not only the expenditures but loan program disbursements (they are considered investments that are repaid).

Mr. Batalden asked for opinions or thoughts from the commission members.

Member Kuwik asked if the same language would carry into items 1, 2 and 3 on page 2 of the directive. Mr. Batalden stated yes.

Member Lehman stated that having documents like this is really key, especially when using other people's money. Having a projection is outstanding, so people can see the ebb and flow. Member Lehman also stated that it would be very helpful to have a chart of assumptions on the revenue side and the expense side.

Member Osborn asked why the projection on the Programs amount for 2022 has increased substantially. Mr. Batalden stated that staff anticipate a couple of HRA budget-related items for 2022. There are a couple of potential affordable housing projects that may need deferred loans. A grant would not be proposed for that type of scenario but rather a deferred loan. With a mortgage on the books, if there is a default the HRA would have a clearly defined ability to cure the default, whereas non-compliance with an unsecured grant is much more difficult to navigate. Additionally, there are some items within the recently approved 2021 Housing Action Plan that may require some capital, and as we get further into the 2022 budget process, that number will be more refined.

Member Kuwik stated that it looks like the property tax levy has been pretty consistent. A short discussion ensued regarding the property tax levy.

After discussion, Member Dahlin asked if all the HRA's conduit issuance fees are HUD fees or other revenue sources. Mr. Batalden stated that the historical HRA revenue sources connected to conduit issuance fees are limited to HRA transactions and are not connected to HUD. For example, the HRA was able to issue the conduit financing for St. Therese due to the organizational structure of St. Therese; but it's a market rate rental structure so the fee on that is much higher than your basic conduit project. Back in 2014, we had \$316,000 in conduit issuance fees. Typically you don't see groups like St. Therese funding projects with conduit debt. These types of revenue sources are not able to be forecast with any degree of accuracy more than six to nine months out.

Audit and Investment Commission Minutes

May 4, 2021

Page 4

Responding to a question regarding the role of federal HUD dollars in local housing projects, Mr. Batalden stated that the HUD dollars are kept in a special revenue fund – Fund 220, which is the Housing and Urban Development Fund. The HUD dollars that come in directly are budgeted on an annual basis. HUD gives the City a program year of July to June – not the same fiscal year as the City’s fiscal year. When the City uses HUD dollars to fund an HRA loan, the loan is owned by the HRA. There is an agreement between the City and the HRA whereby the City allows some of these HUD dollars to be used by the HRA as a source of revenue. All of the accounting for those HUD dollars accomplished separately in Fund 220.

Member Lehman asked if the movement of HUD cash in Fund 220 is a transfer out. Ms. Afdahl stated that it is not moved, everything is accounted for within Fund 220 and all those funds are restricted for only those HUD uses. Ms. Afdahl also stated the expenditures, along with the loan disbursements, happen in Fund 220.

A discussion ensued about having a document that shows all housing-related funding together. Mr. Batalden expressed hesitation about the creation of such a document. Specifically, he noted that the HUD Fund accounts for dollars granted to the City of Woodbury whereas the HRA Fund accounts for the assets held by the HRA—a separate unit of government from the City. In addition, historically, roughly half of the HUD funds from the CDBG program have been used for park and public facilities expenditures rather than affordable housing. Lastly, Mr. Batalden noted that the HRA has recently had a difficult time qualifying borrowers for the HRA’s first-time homebuyer loans using the HUD money, because while we’ve seen inflation in the market in terms of housing stock value and income, the HUD definitions haven’t come along at the same pace.

Member Lehman also stated that he wondered if within the fund balance there might not be a contingency reserve set up. GASB came up with designated pieces of fund balance a number of years ago so it’s not just a slush fund. He thought it would be good to set up a fund balance contingency reserve for unknown circumstances. Mr. Batalden stated that coming through the pandemic, we had a number of borrowers in our loan pool who we needed to give short-term deferrals to. Short-term deferrals were given as long as we were being informed of their intention to get caught back up. Mr. Batalden offered that, in his opinion, he wouldn’t be surprised if when the audit is completed for 2020, the amount of interest received by the HRA was below the amount projected within the 2020 HRA budget.

After some discussion, Mr. Batalden stated that coming out of the 2007 Housing Action Plan, the thought at that time was to attempt to create a revolving loan fund – that you issue enough loans so that ultimately your principal and interest payments revolve and you can then be less reliant on the property tax levy.

After discussion, Mr. Batalden stated there are areas that you can make adjustments, so setting up this policy helps to put some parameters in place.

Mr. Batalden went on to say that we have a very conservative manual underwriting approach when it comes to our loan pool. That has led to a default rate of less than one percent.

Mr. Batalden stated that the objective is to get this before the HRA Board to adopt it prior to the budget workshop. Modifications will be made to the policy and it will be brought before the Commission for a formal recommendation at the June 28 meeting.

Audit and Investment Commission Minutes

May 4, 2021

Page 5

Item 4: Other business

Upcoming meetings:

June 28	Audit review and formal recommendation for directives as presented.
August 10	Gambling ordinance and Ehlers investment portfolio review
November 4	Review the audit procedures and scope for upcoming audit and updated Presentation on our security assessment by Information and Communications Technology Director

Adjournment

Meeting adjourned at 8:40 a.m.

Approved by the Audit and Investment Commission on June 28, 2021