

City of Woodbury
Audit and Investment Commission Minutes

June 24, 2022

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 24th day of June, 2022.

Item 1: Call to Order

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

Roll Call

Upon roll call, the following members of the Audit and Investment Commission were present: Blake Darsow, Cody Groth, Jeanine Kuwik, John Lehman, Andrew Naylor, Alec Sonstebly, Annmarie Weiser. Frank Gilbertson was in attendance via Microsoft Teams.

Absent: None

Others present: Angela Gorall, Assistant City Administrator; Clint Gridley, City Administrator; Matt Mayer, CPA, Auditor, BerganKDV; Roxy Nowicki, Recording Secretary; Jason Schirmacher, CFO/Controller. Kim Wilson, Council Member, and Ryan Miles, Ehlers, were in attendance via Microsoft Teams.

Item 2: Approval of Minutes – February 24, 2022

Moved by member Groth, seconded by member Kuwik to approve the February 24, 2022 minutes.

Voting in favor: All present

Voting Against: None

Item 3: City of Woodbury Audit Results

Chair Darsow thanked Auditor Mayer for being at the meeting to present the audit results.

Independent Auditor's Report: Auditor Mayer thanked the commission members for the invitation. He stated the audit is represented by three different documents – the Annual Comprehensive Financial Report (ACFR), which is the official financial statement of the City, a Communications Letter and a Compliance Report. These have all been summarized into a PowerPoint presentation which was handed out to commission members.

Auditor Mayer stated the City has a responsibility each year to prepare financial statements for the public. Statute requires that all Minnesota cities over 2,500 also receive an audit by an independent auditor so that they can ensure it is an accurate presentation.

BerganKDV's role as auditor is to test, examine, and give an opinion on the financial statements. This is done through an independent auditor's report – it was an "unmodified opinion" which is the best they can offer. This means the numbers are materially accurate and a true picture of the City's financial performance for the year. Another report, the Minnesota Legal Compliance Audit, tests the City on various statutes, looks at conflicts of interest with members of management or the Council, makes sure that contract and bidding is done on a competitive basis and all the investments are according to statutes. There were no findings. Auditor Mayer also stated there were no material weaknesses when it came to internal controls (the policies, processes, procedures that are in place to ensure accurate financial reporting).

Also, because the City received more than \$750,000 in Federal funding for the 2021 fiscal year, the Federal Government requires that we do a compliance audit called a Single Audit. This is an audit which looks at the Federal funding and the compliance with the grants and the agreements that the City has entered into with the Federal Government on how it is going to use those dollars. This is done on a rotating basis. Back in 2020, the City received significant CARES funding and that program was

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tested in 2021. In 2021, there was the Home Investment Partnership Program which is a HUD-based program that provides affordable housing and opportunities for housing within the City of Woodbury. There were no issues with that particular program. The report that is being presented to the Federal Government regarding the use of the money in 2021 will be a clean report.

Auditor Mayor then stated that the ACFR is an award-winning document that gets submitted to a national organization to be evaluated. This document is critiqued for accuracy, transparency and completeness. The City has received this award since 2001. This report is not a mandated report; this is a choice the City makes to provide for transparency and a lot of hard work went into preparing this report.

Auditor Mayor then asked if there were any questions. A question was asked what the Home Investment funds were used for. Auditor Mayer stated it was for an acquisition of a property that will be redeveloped for future multi-use housing.

General Fund Budget - Auditor Mayer stated the General Fund is the main operating fund of the City. Most of the City's activity runs through the General Fund (Police Department, Administration, Engineering, Finance, Human Resources, Public Works Department, Community Development, Parks and Recreation programs). It is the fund that the Council has the most input on through the budget process and also takes the most responsibility for because most of the property tax levy goes into this fund as well to cover the costs of these services. This fund is analyzed in the context of budget compliance in that the Council established parameters for spending at the end of 2020 for the 2021 fiscal year. The final amended budget called for \$36.5 million worth of revenue, about \$39.8 million worth of spending, some transfers in and out that netted to transfers out at approximately \$4.7 million, and a plan spend down of fund balance or financial position of about \$8 million at the end of the 2021 fiscal year.

The transfers that were budgeted both in and out occurred as planned, and rather than a spend down of fund balance of \$8 million at the end of the 2021 fiscal year as planned according to the budget, there was only a drop in fund balance of approximately \$800,000. Revenue came in better than anticipated at approximately \$3.5 million (big line item was licenses and permits) and expenditures came in under budget by \$3.7 million (most of which was personnel in the Police Department), so outperforming and outpacing the budget by approximately \$7.2 million.

Mr. Gridley stated that commercial and residential development have both been strong. There are very large projects happening – the water project, Gold Line project and others. It has been difficult to attract and retain workers, especially police officers.

Mr. Lehman stated that a year ago, Parks and Recreation was down \$1.8 million and this year it was only down \$877,000. Mr. Gridley stated that people are returning to recreation programs, but we don't have staff to run all the programs. The golf course had the best year ever. The M Health Fairview Sports Center is still lagging, but it's coming around. Central Park has probably been a bigger burden on the General Fund from a recreation perspective. The City is planning to do a big improvement, but is struggling with the timing. There is a decline in revenue due to it not being promoted and the age of the facility.

A question was asked on Public Safety staffing. Mr. Gridley stated we are eight to nine officers down. There have been quite a few lateral moves from other cities. After a short discussion, Ms. Gorall stated that a lot of this information is in the 2021 Performance Measures, which is on the City's public website.

After a short discussion, Auditor Mayer continued with his presentation.

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General Fund – Fund Balance - Auditor Mayer stated this is a measure of the short-term resources that are available for spending in next year's budget. There is a total fund balance at the end of 2021 of \$16.7 million. \$1.5 million of this is set aside for compensated absences (severance pay), \$1 million is set aside for any contingencies that might arise from year to year, and also some carryovers from last year's budget into the next one.

Auditor Mayer continued by stating that the City has a fund balance policy that after factoring out those set asides, the discretionary or unassigned fund balance should be 30 percent of next year's budget, which is where the City landed at the end of the 2021 fiscal year. The total fund balance as a relation to next year's budget is approximately 37-38 percent, and that is because of the compensated absences, which represent approximately eight percent of the budget.

Mr. Gridley stated that the City is likely going to ask the Commission to review the Fund Balance Policy to make sure that we have enough reserves in case of a big liability or natural disaster in the future.

After a short discussion, Auditor Mayer continued with his presentation.

General Fund Revenues – Revenue in the General Fund was down from 2020 by approximately 1.7 percent. One of the big factors was the \$5 million of CARES money received in 2020 from the Federal government that went into the General Fund. The City is also going to receive ARPA funds from the Federal Government in 2022-2023 fiscal years. Cash was received by the City during the 2021 fiscal year, but qualifying expenditures were not made during that year, so no revenue was recognized. One other item of note is that the City's portfolio investments is almost entirely fixed income, and in a rising interest rate environment which we were seeing at the end of 2021, the holdings the City had were below the current market value. Generally accepted accounting principles require they be written to market at the end of each year, so there was a fairly significant negative impact on the investment income. The City does hold those investments to maturity so those will ultimately get back up to par. Because of this there was no benefit to the General Fund during 2021 for investment income.

General Fund Expenditures – Auditor Mayer stated that expenditures and transfers out were up approximately 2.3 percent. If you remove transfers out, there is a fairly steady inflationary growth year over year. The allocation of the expenditures is fairly consistent from year to year. (Note that slide 8 of the PowerPoint Presentation should say "Expenditures and Other Sources" rather than "Revenues and Other Sources".)

Debt Service Obligations – Auditor Mayer reviewed the planned debt service payments over the next 15-20 years. The governmental debt is steadily declining; however, there could be new debt issuances. The City is fairly judicious in the way that it chooses to incur debt. Mr. Gridley stated that the City tries to be "pay as you go" as much as possible.

Enterprise Funds – Enterprise funds are fee for service type funds. The General Fund is very much levy based. There are some unique factors in the government sector that are not necessarily in the private sector that needs to be factored in regarding capital and capital financing.

M Health Fairview Sports Center – Auditor Mayer stated that this fund had a little bit of a challenge in 2020. It was shut down for approximately one-third of the year, and the revenue stream in this fund went down significantly. If depreciation is factored in, this fund has had an operating loss in each of the last five years. However, if the depreciation is factored out, this fund has performed positively in cash flow operations. The actual capital financing for this fund is actually outside of this fund. There was a tax abatement bond issue back in 2013, which paid for the improvements to the facility. The expectation is that the user fees are going to cover the cost of providing the services.

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Street Lighting Operation – Auditor Mayer stated there were moderate increases in revenue over the last five years.

Water and Sewer Utility – Auditor Mayer stated this fund is the main enterprise with approximately \$16 million in revenue. This fund has had some challenges. There is significant capital activity coming up in the years ahead. The City responded with some rate adjustments the last few years related to the activity in this fund. 2021 was a particularly dry year, so revenue was up as a result of that. In 2021, because of the magnitude of the water sales and the impact of some of the rate adjustments, there was operating income of \$63,000 with depreciation factored in.

Auditor Mayer continued by stating that in a typical business there are overhead costs for providing finance services, HR services, administration, etc. The Water and Sewer Utility Fund has these same administrative costs, but those costs are paid for out of the General Fund since those employees are typically budgeted out of the General Fund. The mechanism to charge those costs to this fund is actually a transfer out of this fund. The transfer leaves the Water and Sewer Fund and goes into the General Fund as an in-flow. That reimburses the cost of the finance team and the administration team for the services that they provide.

Member Lehman asked if this is the fund where the PFAS impact would be. Mr. Gridley stated that it is. Mr. Gridley also stated that staff is meeting to review a rate analysis report and trying to project rates forward. The settlement may not provide all the costs to do system-wide treatment. There is a capital participation gap that the rate payers may have to pay. The big question is water softening. It is a big capital cost, but would have a significant environmental and long-term benefit to residents. There will be some level of referral of the rate considerations which are fairly long term, and the question of water softening will come back to the Audit and Investment Commission for advice to the Council. Woodbury's rates are the second or third lowest in the metro.

Storm Water – Auditor Mayer stated that expenses exceeded revenue the last five years, with revenue growing at an inflationary rate over that time. There is significant infrastructure in this fund that drives it to an operating loss once depreciation is factored out.

Eagle Valley Golf Course – Auditor Mayer stated this was again a record year for the golf course. Revenue stream continues to grow, both on the club house side and the number of rounds played. There was an increase in expenses year over year, mostly in the area of personnel to service the activities.

Tax Capacity, Levy and Rates – The property tax levy overall has grown from \$31.6 million in 2017 to \$38.9 million in 2021. Over that time, the market value of the City as measured by tax capacity has grown from \$91.1 million to \$122.1 million over that same period of time. However, the growth in the levy has not been proportional to the growth in the market value. As a result of that, the tax capacity rate for the City of Woodbury has gone from 35.1 percent in 2017 to 32.3 percent in 2021.

Member Groth asked if this is just residential or does it include commercial as well. Auditor Mayer stated that it is overall.

Auditor Mayer encouraged the commission members to take a look within the Annual Comprehensive Financial Report as there is some very deep-dive analysis on the tax base on pages 210-219. Mr. Gridley also recommended the members watch the recent video by the Mayor explaining if your property value goes up, it does not mean that your taxes go up.

Government Funds - Auditor Mayer stated that the Office of the State Auditor puts out a report each year that provides per capita revenue for municipalities. In the 2020 fiscal year, a typical city in the peer group collected \$1,158 per capita, of which \$537 was from property taxes, and \$273 from other

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intergovernmental revenue. In 2020, Woodbury measures very much in line with the state averages – Woodbury collected \$1,028 in revenue per capita. Woodbury’s levy was about \$28 per capita less than a typical city in the peer group. When it comes to intergovernmental revenue, Woodbury is not a significant recipient. Woodbury is much more special assessment heavy.

Expenditures per Capita - Auditor Mayer continued with Expenditures per Capita. Expenditures are broken into three categories:

1. Current expenditures which is the everyday operating costs of running the City (a typical city in the peer group spent \$749 per capita and Woodbury spent \$641).
2. Capital outlay, which is the investment in roads, equipment and infrastructure, which fluctuates year to year based on project costs and project needs (a typical city in the peer group was at \$330 per capita and Woodbury was at \$307).
3. Debt service which is the principal and interest on the debt that each city has (a typical city in the peer group spent \$124 per capita and Woodbury spent \$78).

Mr. Gridley stated that the Audit and Investment Commission played an important role on the question of if the City was going to go to a debt-based system to pay for the capital replacement of the park assets. The Audit and Investment Commission, along with the Parks and Natural Resources Commission, came up with a recommendation to continue the “pay as you go” tradition through franchise fees and property tax.

Regarding the franchise fees, Mr. Gridley stated the City is sent a check once a quarter and that there is no administrative cost to the City.

Auditor Mayer reviewed an analysis table on page 28 and reviewed why some figures do not total across the whole table in a consistent manner. The table was verified as being accurate.

A motion was made to accept the 2021 audit results as presented by BerganKDV. Moved by member Sonstebly, seconded by member Lehman.

Voting in favor: All present

Voting Against: None

Item 4: Quarterly Investment Results Review with Ehlers

Mr. Miles began his presentation by briefly reporting on economic indicators. The first indicator is Manufacturing PMI, which comes out monthly and shows how manufacturing is performing.

Another economic indicator is retail sales. Retail sales are down; however Woodbury is still strong. Retail sales are slowing across the board.

Feds are raising rates to slow inflation down. We should see more of a leveling off in the next quarter.

Mr. Miles continued his presentation talking about the Fed Monetary Policy. Each member of the Fed Committee puts a dot where they think rates are going to be going. It’s helpful as the investment portfolio is being structured to be mindful of where rates are going to be going.

Mr. Miles continued with his presentation talking about the portfolio composition and performance summary. Interest and dividend income received for the first quarter was almost \$700,000. Last year, over \$2 million of interest income was generated.

Mr. Miles ended his presentation by reviewing the first quarter report.

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- All funds have been fully re-invested with eye on liquidity. The duration has been reduced from 2.6yrs to 2.55yrs while maintaining an average credit rating of AA. We will continue to monitor and intend to reduce portfolio duration to around 2 to further reduce unrealized losses in the portfolio.
- Continue to monitor Fed policy decisions and rate changes. The next few decisions will be key to portfolio construction.
- The recommended plan for next quarter is to continue monitor cash flow for appropriate liquidity for summer projects and reinvest maturities on the short end of the yield curve to reduce duration/market price sensitivity.
- Work with Finance Director to implement changes to further utilize portfolio accounting platform to provide a tool to reduce staff investment accounting time.

After a short discussion the commission thanked Mr. Miles for his presentation.

Item 5: Update on City Enterprise Resource Planning (ERP) Project

Since the meeting time is up, Ms. Gorall stated that there is a very important project coming up replacing the City's ERP system and City staff will keep the commission updated. This will be up to a \$1.5 million investment.

Item 6: Adjournment

Moved by member Sonstebly, seconded by member Groth to adjourn the meeting.

The meeting adjourned at 8:55 a.m.