

City of Woodbury
Audit and Investment Commission Minutes

June 28, 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 28th day of June, 2021.

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: Heidi Conrad, Blake Darsow, Jeanine Kuwik, John Lehman, Andrew Naylor and Rick Osborn.

Absent: Ross Dahlin

Others present: Judy Afdahl, Controller; Karl Batalden, Community Development Coordinator; Angela Gorall, Assistant City Administrator; Clint Gridley, City Administrator; Matt Mayer, CPA, Auditor, BerganKDV; and Roxy Nowicki, Recording Secretary. Kim Wilson, Council Member, was in attendance via Microsoft Teams.

Item 2: Approval of Minutes – May 4, 2021

Moved by member Osborn, seconded by member Lehman to approve the May 4, 2021 minutes.

Voting in favor: All present

Voting Against: None

Absent: Ross Dahlin

Item 3: Update on Parks and Trails Replacement Fund Council Directive

Ms. Gorall referenced the memo that was provided in the agenda packet regarding the Parks and Trails Replacement Fund Council Directive. Council directed staff to change it from a council directive to an administrative directive. No further action is needed from the Commission at this point. The biggest difference between the two is a council directive has to go before Council for formal approval, and an administrative directive can be approved by the City Administrator. Gorall noted that Council requested a few years of Fund implementation and then for the directive to be revisited for possible conversion to a Council Directive.

Item 4: Second Review of Proposed Housing and Redevelopment Authority (HRA) Fund Policy

Mr. Batalden stated that at the May Audit and Investment Commission meeting, the draft HRA directive regarding the HRA fund was reviewed by the Commission. As stated previously, one of the deliverables of the 2021 Housing Action Plan was to adopt this policy prior to the September budget workshop. Some minor technical changes were made and this policy will be brought to the HRA board at the July 14 meeting. Mr. Batalden also stated that as a reminder, the Mayor and Council Members serve as the chair and board members of the HRA, but technically the HRA is a separate unit of government.

Mr. Batalden continued by stating that the changes are noted in the staff memo and in the strikethrough HRA Fund Policy.

Moved by member Osborn, seconded by member Conrad to recommend the HRA Board adopt the HRA Fund Policy.

Voting in favor: All present

Voting Against: None

Absent: Ross Dahlin

Item 5: City of Woodbury Audit Results – Presentation by Matt Mayer, CPA of BerganKDV

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

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Independent Auditor's Report: Auditor Mayer thanked the commission members for the invitation. He stated the audit is represented by three different documents – the Comprehensive Annual Financial Report, 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 responsibility for financial reporting rests with management of the City; he commended Judy Afdahl and her team for another fantastic year – books were very cleanly closed and the audit went very smoothly.

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).

Auditor Mayer continued by stating that 2020 was an unusual year. The Federal Government provided \$5 million CARES funding to the City. When significant (more than \$750,000) Federal funding is received, a single audit is required. This audit is not so much a financial audit as it is a compliance audit – to make sure all the agreements that were entered into associated with the grant were met and that the spending of the grant was done in accordance with the rules associated with the grant. Again, there were no issues or findings.

Auditor Mayor then stated that the Comprehensive Annual Financial Report 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. It is not mandated the City prepare this report; therefore, it shows the desire for full transparency.

General Fund Budget - Auditor Mayer stated the General Fund is the main operating fund of the City. The Commission members and Council should look at what was established for the budget, how the City administration executed that in relation to the budget, and was the City's financial position at the end of the year in line with the fund balance policies. The original budget for the General Fund called for \$35 million in revenue, about \$37 million in spending and net transfers in from other funds (basically payments from the utility funds for their administrative services) - so the budget was balanced to start the year in 2020. During the year, that budget was formally amended by the Council. Revenue was increased to about \$40.8 million. Council did not make significant adjustments to the expenditure side; they bumped it up about \$1 million, so the final authorizations of \$38.3 million for spending in the General Fund. Net transfers out were budgeted at \$4.6 million, most of that is management of fund balance levels and transfers out to the capital improvement fund.

Revenue for the year was \$41 million, \$192,000 better than anticipated. Charges for services (recreation fees) was down for the year. Intergovernmental revenue was also down slightly with some grant dollars being rolled over into the next year. Taxes were slightly over budget; licenses and permit activity was also a little bit of a conservative budget.

Expenditures for the year were under budget by approximately \$2.8 million. Most of the departments did a very nice job. Parks and Recreation was significantly under budget with suspension of operations in 2020. As a result, they came in under budget by about \$1.8 million. Transfers were made in line with the final budget guidance. The fund balance increased for the year by \$927,000.

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General Fund – Fund Balance - Auditor Mayer continued with his presentation reviewing the five-year history of the fund balance. There were some fairly significant increases the last couple of years, which was a conscious decision by Council and Administration.

He then went on to talk about the City's financial health as measured by fund balance in relation to the City's fund balance policy. The City's fund balance policy states that you want to have 30 percent of next year's budgeted expenditures in fund balance at the end of each fiscal year. At the end of 2020, that number was slightly higher than that; there was about \$2.7 million over and above that threshold that Administration decided to maintain within the fund balance as an additional contingency fund because of the unknown of 2020. For 2019 and 2020, the numbers are slightly out of the trend when it comes to that 30 percent level.

Mr. Gridley stated that when Covid hit in March of 2020, the unknowns were huge. Rather than take some typical sweeps to the capital fund, it was decided to keep the cash handy. Staff decided not to transfer funds out of the General Fund and to hold the cash to prepare for the unknown.

Member Kuwik asked if there would be more CARES money. Mr. Gridley stated the City did receive another \$6 million from the American Rescue Plan (ARP). This has already been dedicated to the Water and Sewer Enterprise Funds since there is a big water treatment plant project coming.

After some discussion, Auditor Mayer continued by stating that 30 percent is the goal and for 2016-2018, total fund balance was approximately 37 percent. The reason for that is that 30 percent is the base, there is another seven or eight percent over and above that that is committed fund balance for work compensated absences as well as the stabilization fund; most of it is compensated absences.

Member Naylor asked if the extra seven percent that is added in covers the entire potential liability. Ms. Afdahl stated that it is 50 percent of the compensated absences, with another 2.5 percent set aside for emergencies.

Mr. Gridley stated the State Auditor's recommended fund balance range is 35 percent to 50 percent, so this is within that range. Member Naylor asked if the City plans on maintaining 45 percent now. Mr. Gridley stated that the City does not plan on maintaining that.

General Fund Revenues – Revenues in the General Fund was up approximately 14.5 percent. The intergovernmental revenue went from \$1.6 million in 2019 to \$6.9 million in 2020. The \$5 million CARES money was the main reason for that. Typically 70 percent of the revenue has been the property tax base for the City.

General Fund Expenditures – Auditor Mayer stated that expenditures look like a fairly significant increase; however, most of the growth and outflows are transfers out to other funds. If you take out the transfers, actual expenditures in the General Fund are only up approximately four percent year over year, despite all the challenges during the year.

Allocation of those amounts is fairly consistent from year to year when it comes to General Government, Public Safety, Public Works, Community Development, and Parks and Recreation. The main transfer out was approximately \$6 million into the Capital Improvement Fund, which is there to take on major projects for the City.

General Fund Expenditures by Function – Auditor Mayer continued stating spending allocation is very consistent from year to year.

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Debt Service Obligations – Auditor Mayer stated that after a big pay off in 2021, the debt service obligations of the City moving forward are going to fall to only about \$5 million a year. That is a comfortable place to be – about \$100 per capita.

Mr. Gridley stated that there are some big projects ahead

1. The Central Park project - hoping to do a bonding for this project.
2. Future Water Treatment Plant – distribution of 3M monies is not sufficient – there will be a big bond issuance for this.
3. Future improvement to the Public Safety Building – this may be a future debt.
4. Washington County may be selling the City the County Service Center. The City has the right of first refusal for that property.
5. Gold Line project will not involve any debt.
6. Major project next year – Royal Oaks total street reconstruction - \$20 million. There is enough in reserves for this project.

Auditor Mayer continued with his presentation, moving on to the Enterprise Funds.

Enterprise Funds - HealthEast Sports Center (HSC) – Auditor Mayer stated that revenue took a significant hit during the year. HSC management did a nice job in addressing those shortfalls in revenue and the expenses were paired back as well. There was an operating loss in HealthEast for the year, but if depreciation expense is factored out, this fund actually did perform positively in cash flow operations. Also not included is the non-operating revenue lease from Summit Orthopedics and the cell towers.

Member Lehman asked if things were beginning to perform better in 2021. Mr. Gridley stated the first quarter is going to look rough, second quarter is healing, and hopefully fourth quarter it will be back to normal. He also stated that, excluding depreciation, the fact that HSC did not lose money was a good thing.

Street Lighting Operation – Auditor Mayer stated this was an unremarkable year – 2 percent increase in revenue, 2.8 percent increase in expenses. The structure of the fund is well established.

Water and Sewer Utility – Auditor Mayer stated that one of the expenses in this fund is actually a transfer out to support Finance, Administration, and HR associated with the utility. All of those expenses are in the General Fund. This fund actually transfers approximately \$1 million from this fund back to the General Fund to help restore some of those costs. Operating income without depreciation is actually growing and has been increasing the last several years. 2020 was a relatively dry year, not to the drought levels that we are experiencing in 2021, but it was dryer than the last couple of years. When that happens, people use more water to water their lawns, and, as a result, the revenue goes up. Revenue was up and expenses were also up during the year. Operating income without depreciation factored in went from \$2.3 million to almost \$3 million. This fund is self-supporting when it comes to renewal and replacement of capital projects.

Storm Water – Auditor Mayer stated that was a minor increase in revenue and expenses were up for the year, generating sufficient operations to cover operating costs from a cash flow standpoint and covering portions of depreciation.

Eagle Valley Golf Course – Auditor Mayer stated this was a record year for the golf course. Rounds were up approximately 13 percent year over year; as a result revenue was up approximately 13 percent. Nice operating income for the year which covered the depreciation. Management has done an excellent job the last couple of years.

Tax Capacity, Levy and Rates – The growth of the tax capacity of the City over the last five years has

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been steady. The total property tax levy of the City has grown nominally over the last five years. The tax capacity rate has actually gone down the last five years.

Government Funds Revenue - Auditor Mayer stated a typical city in the peer group collected \$1,100 from its citizens from property taxes, special assessments, etc. Woodbury collected a little over \$1,000. When it comes to the property tax levy, Woodbury is in line with other cities in the peer group - \$495 compared to \$512. When it comes to intergovernmental revenue, a typical city gets approximately \$200 per capita and Woodbury gets approximately \$90. 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 spending which is the everyday operating cost of running the City (Woodbury is right in line with the state average; the state average was \$733 and Woodbury was \$729).
2. Capital, which is infrastructure purchases (very consistent - Woodbury was at \$459, while the state average was \$358).
3. Debt service (Woodbury is on a pay as you go basis using resources that are available. Woodbury's debt service obligation for 2019 was \$95 per capita and the typical city was \$116.)

Mr. Gridley stated that he really appreciates the work of the Audit and Investment Commission and the Parks and Natural Resources Commission continuing the "pay as you go" philosophy regarding the franchise fee to create another line of revenue for the aging infrastructure of the parks and trails systems. Woodbury has always been very cautious about debt – it does need to be issued from time to time.

Mr. Gridley also stated that in addition to the pandemic, the Finance Director retired and Administration was consolidated with Finance. Angela Gorall and Judy Afdahl stepped into new roles, and the building was under construction. Mr. Gridley thanked Judy and her team for all their hard work in getting this kind of a result in a crazy year.

Item 6: Questions and Review of Audit Materials

Following Auditor Mayer's presentation, Chair Darsow asked if there were any questions. Hearing none, he then thanked Mr. Mayer and the City on another clean audit.

Item 7: Adjournment

Moved by member Osborn, seconded by member Conrad to adjourn the meeting.

The meeting adjourned at 8:25 a.m.