CITY OF PARK RAPIDS
CITY COUNCIL WORKSHOP
JUNE 24, 2014, 5:30 PM
Park Rapids Public Library-Lower Level
Park Rapids, Minnesota

1. CALL TO ORDER: Mayor Pat Mikesh called the City Council Workshop for June 24th, 2014 to order at 5:30 p.m.

2. ROLL CALL: Present: Mayor Pat Mikesh, Councilmembers Dave Konshok, Rod Nordberg, Erika Randall, and Paul Utke. Absent: None. Staff Present: Treasurer Angela Brumbaugh, Public Facilities Superintendent Chris Fieldsend, Liquor Store Manager Scott Olson, and Clerk Margie Vik. Others Present: KDV Auditor Jennifer Piekarski.

3. PRESENTATION:

3.1. 2013 Audit Report by KDV: Jennifer Piekarski, with Kern, DeWenter, & Viere Auditing Firm (KDV), stated the components of the audit include the opinion on the city's basic financial statements, a report on government auditing standards, the report of the results of the city's single audit with OMB Circular A-133, the report on the testing on Minnesota Legal Compliance, the financial analysis and findings in the Communications Letter, the required communications, and emerging issues that you need to be made aware of.

Piekarski stated the components of the independent auditor's report talks about the financial statements being a part of management's responsibility. Brumbaugh and her staff are responsible to prepare all of the information for us. It's our responsibility as auditors to issue an opinion on that financial statement information. The audit includes examining on a test basis evidence supporting the amounts in the financial statements and the disclosures and the footnotes. We don't test every disbursement and every journal entry. We do a sample across all of the city's activity to test, unless something specific is brought to our attention, then we'll look at that as well. We did issue an unmodified opinion on the basic financial statements. This is the same opinion that you have been getting. That's on your city's government-wide financial position. That's where we look at the city as a business-type, by adding all of the long term assets and debt. We look at each major fund and the aggregate remaining funds, the cash flow statements, the budget to actual statement for the city's general fund and the airport fund. The audit is to provide assurance that the financial statement are fairly presented in all material respects.

Piekarski stated in your financial statements we did implement a new Government Accounting Standards Board standard this year, GASB 65. It's in regards to deferred resources. There's not any new information to the financial statements. It's taking the deferred revenue line and the liabilities and breaks it out between your property, taxes, special assessments, and accounts receivable. It's not a new calculation. It's just breaking out that deferred revenue into different pieces. If you are comparing your statements year to year, you will see that as looking a little different. In the end, your ending calculations are still the same.

Piekarski stated your report on government auditing standards had three findings this year, material audit adjustments, lack of segregation of accounting duties, and preparation of financial statements. Those should look familiar to you. There are no changes there. You do have two fewer findings this year. You cleaned a couple of things up. We also issued a report on the single audits in accordance with OMB Circular A-133. There was an unmodified opinion for those single audits for those federal programs. We tested the Community Development Block Grant. Some of that funding is used to issue small business loans, and $600,000.00 of it was for the Water Treatment Facility. We also tested the Capitalization Grant for Drinking Water. You are using that money for the Water Treatment Facility. We have to do these federal audits when your federal expenditures exceed $500,000.00. We'll have that again in 2014 as you finish the airport project and the Water Treatment Facility.

Piekarski stated in 2015 they are revamping all the single audit standards. So what we have to test for the dollar thresholds, instead of $500,000.00, it will be $750,000.00. When cities have projects they spend $2 million. It's probably not going to affect you too much, yet it is a change in the standard to be aware of.

Piekarski stated for the Minnesota Legal Compliance, there were no findings when we tested. The state puts out seven different compliance guides that we have to do. We go through the questions with Brumbaugh and her staff. We did not have any findings this year. There was one finding last year that we did clean up. There are a lot of things in statute that we don't test. We're just required to go through probably about one-hundred questions that the state says these are the ones that we want you to look at when you go through your audit.

Piekarski stated in the communications letter there are some things that we are required to put to you as management of the Council. If you had any issues with staff, if there were past adjustments, material audit adjustments. Nothing in there changed from last year. After the required communication, there are some emerging issues. This is new for this year. It's for things that are on the horizon, things that the city needs to start thinking about and have to implement. In there this year is GASB 68, which is a new standard that the city will have to implement in 2015. It's for the PERA plan. It's taking part of the state's liability for pension payments for firefighters, police, and public employees, and saying, at the state level we have $1 million that is unfunded. If everyone were to get paid out right now, this is how much we would be short. It's going to allocate a certain percentage to each entity that pays into that program, and says that out of this $4 billion you owe $400,000.00. It's not something that you're going to have to pay right away. It's going to show up on your financial statements, but it's not an actual liability of the city yet. It's just saying eventually this is your share of what you should be paying. In the long term it's probably going to increase contribution rates of the city, making more payments during the year. It's something that's going to show up on your financial statements, but it's not something that you're going to be making regular payments on. This is a federal regulation which the state is implementing in 2015. The state will tell you how much to put on your rolls. Roughly what we've been hearing is take the liability section on your government wide statements, and double it. It's going to make your financial position look really bad on the long term perspective, but once you take that out, you can compare what you really have.

Nordberg questioned you say this is about the state shortage, the $4 billion, and your portion of that, is that just for our employees in Park Rapids or is that for statewide employees? Piekarski stated they are having an actuary do a vague calculation on how much they think it's underfunded. Then they're allocating this is your portion because you have this many employees. Nordberg questioned like firefighters and police, not for the state. It isn't a statewide obligation? Piekarski stated everyone in the state that pays PERA. Nordberg questioned then it will be proportioned to our number of firefighters, versus the state's firefighters? Brumbaugh stated keep in mind that our firefighters do not have PERA. For us it's just the employees. Piekarski stated you are in a unique situation because they have to fully fund theirs every year. Brumbaugh stated we just have the two different plans. Konshok stated you're saying firefighters, but it's really not for us. It's for cities with full time firefighters. Piekarski stated I wanted to make you aware so when you see that number show up on your statements, you'll know what it is. Konshok stated that was driven by large scale cities like Detroit that had the big underfunded pension plans. It's a new rule the feds are putting in across the board. Piekarski stated I was at a training where they said that Minnesota is pretty well funded compared to some of the other states. Konshok stated but if you run the numbers, they're still not good.

Piekarski stated the other thing in the emerging issue section is a few years ago you had to implement internal control processes to look at what the city is doing. That's when we brought in that lack of segregation comment. They are revamping those standards to account for advancements in technology. A lot of things are being done on computers now that ten years ago might not have been done, such as approvals for payrolls. Now it's all an electronic process. They say you need to have a signed timecard. What does signed mean? They are looking at "signed" in an electronic version, and to get controls in place for that type of thing. Its taking what you are doing and adding controls over technology in the systems. These are new standards coming down that we want you to be aware of.

Piekarski stated looking at the general fund revenues there is a 2.1% increase from 2012 to 2013. A big portion of that was in the taxes. Those increased $114,000.00. There's an increase in the levy of about $100,000.00 and about $16,000.00 in delinquent taxes that were received during the year. In the miscellaneous revenue section, that decreased about $60,000.00 due to unrealized loss on investments. That's just timing in the market. Because of the type of investments that cities hold as a market rate increases your investments look like they are hitting the tanks. If you hold those investments to maturity that unrealized loss comes back and you'll realize it for the full value. It's timing on how the market did at your end for your investment portfolio. I would say 95% of the cities that we work with this year had the same thing. You're still getting your interest income and because of the market conditions, I'd say you have most of that back already and turned around. It looks bad at year end but it's not really a loss that you're going to have. We just have to recognize it at what the market value is.

Nordberg questioned who invests that, is it the League of Minnesota Cities? Brumbaugh stated with this portion of it we're with Smith-Barney. Nordberg questioned on an annual basis what percentage of that income do we rely on? Brumbaugh stated we just keep reinvesting it. We don't rely on it for operations. None of our stuff has ever been taken out early, so we do get all of our investment income on it. Nordberg questioned so they are like timed investments so there's a maturity date and if you hold it to maturity you haven't lost. Brumbaugh stated exactly. We have these, we have some step-ups, we have a variety of things. Piekarski stated the step-up bonds are usually what have that big decrease. As the market value gets higher, your investment gets lower. They keep stepping up their interest rates. If they get called early they pay you out for the full amount so you still don't lose anything on it. It looks worse than it really is.

Piekarski stated the general fund revenues compared to the budget, overall your revenues were over budget by $34,000.00. Intergovernmental revenues were over budget by about $39,000.00. You received some additional supplementary aid for the fire department this year. You're going to see that on the expenditure side as well. They gave you more aid so it shows on the revenue. We'll see it on the expenditures increasing as well. Charges for services were over budget $40,000.00. There's increased fire calls. You budgeted low for those. The plan review fees were over budget. These are some items that you don't know where they are going to come in at so it's safe to budget low not planning on that revenue, and then getting it when it comes in, and then having expenditures to offset it. The miscellaneous revenues were under budget about $40,000.00 because of the unrealized loss on the investments. It's not something you can budget for if you don't know where the market is going to be sixteen months in advance. You are in the practice of not budgeting anything for the unrealized loss.

Piekarski stated the general fund expenditures overall increased about 7.9%, or $190,000.00 in 2012 to 2013. Most of the functions did experience some minor fluctuations. Although the capital outlay in the other category increased $85,000.00, there was some sealcoating work done for $109,000.00 that was not done in 2012, that caused an increase. Public safety increased $103,000.00 due to increased salaries. Some people were out on leave so they had replacements part of the year. They had a fire relief aid payment and there were some repairs and maintenance done for the year.

Piekarski stated overall the city was over budget by about $28,000.00 in their expenditures. The general government function was under budget by about $48,000.00. In the budget you planned for a full time city administrator and the full time benefits. By contracting the position out you have some cost savings. You budgeted for some unemployment that was not needed in the end of the year. Public safety was over budget by $32,000.00. You had increased salaries with employees being out on paid leave then the replacements being paid, so there were extra salary costs there. Public works was under budget. Some repairs were budgeted for and not needed. The sealcoating was budgeted for in the public works function and recorded in the capital outlay. When you look at the capital outlay you see that is over budget because the sealcoating was put in the public works area. You budgeted $75,000.00 for sealcoating and then spent $109,000.00 to take advantage of some cheaper costs, so you did some of the sealcoating that you planned for 2014 in 2013.

Piekarski stated the cash and investments can fluctuate monthly. In January you just got a big tax settlement. As you spend it throughout the year it goes down. In June it hits the bottom. You get another big tax settlement so it increases. In December it's about $250,000.00. The city is overspent in other funds, so to cover that deficit the general fund is loaning money to other funds to cover what they've spent. It shows up in the general fund. If those funds had not needed that extra cash, you'd have had just over $2 million in the general fund.

Piekarski stated the city has a policy that states that your fund balance is going to cover 50% of expenditures. Right now you're at 45%. Last year you were at 48%. You're not in a bad place but you're not in compliance with the policy that the city has set.

Piekarski stated the interfund activity is the due-to and due-from of the city, when one fund owes another fund. The general fund is owed $894,000.00 from the airport fund, $2,300.00 from your major debt fund, and those other intergovernmental funds owe $898,000.00. At 2012 year end your cash deficit was $235,000.00. Your cash deficit at December 2013 was almost $1.8 million. Part of that concerns me. Part of that doesn't.

Piekarski stated the airport dollar amount of almost $900,000.00 is strictly due to timing on receipts at year end. You have the funding for the crosswind runway project. You just hadn't gotten the funding in so there was money coming to cover that cash deficit but it wasn't received by year end. It came in January of 2014, so that is covered. In the other governmental funds there's a $140,000.00 receivable from the DNR for the Red Bridge Project, which is money you have spent but haven't gotten payment on. That doesn't concern me because you have money coming in for that.

Piekarski stated that leaves about $760,000.00 that there is not a plan for funding that cash deficit. About $500,000.00 of that is in the general capital improvement project fund. About $375,000.00 is from a project you did in conjunction with the state in 2012. They said the city owes another $375,000.00. You didn't bond and assess for that but had to make that payment to the state. That's a big chunk that you are going to need to fund from somewhere. I know you are thinking about doing a bond next year for some projects. You can only go back so many years to recoup costs. We're looking into it see how far back you can go on that project. It will be similar to the Green Acres Project and the Riverside Area Project. Those are in deficit $77,000.00 and $70,000.00 each. That's another $150,000.00. Right now you have looked into the projects, but there hasn't been a plan. One is going to be done in 2017. But that might be too late to recoup the costs that have already been spent. You need to look for a way to fund those projects. The increase to the cash deficit is $500,000.00 with no plan of how to cover that. It raises a flag with me that's why I wanted to bring it up. You need to be thinking of that with your projects.

Piekarski stated the tax capacity, levy and rates of the city is information that we get from the State of Minnesota. Over the five years since 2009 the tax capacity has decreased 11.5%. It stayed very consistent from 2012 to 2013. Hopefully that means market values and property values are leveling out and potentially going back up for the city. Over that same timeframe your levy has increase 29%. Your tax capacity rate/levy as part of the market value of the city has increased almost 22% during that time period. The state average is just under 49% for the levy, which is almost 21% lower than the city's tax rate for the state average. That's to fund your general fund as well and make your debt payments to cover the projects that the city has done.

Piekarski stated the enterprise funds include the water, sewer, and liquor funds. The city had an operating loss of $91,621.00 in the water fund. That does include depreciation expense of $390,000.00. That depreciation shows up since it's an enterprise fund, but it's not a cash expense. If you take that depreciation out you did not have an operating loss, you had an operating income of $298,000.00. That operating expense also did not include any debt payments made, principle or interest, which is about $60,000.00 a year. The city has a slight increase in the revenue. There was an increase in the usage. You bucked the trend this year as the only city that had increased revenue due to increased usage with no rate change. Normally we are seeing decreased usage and revenue even with a rate increase.

Piekarski stated the sewer fund is a similar operation since your charges are slightly based on water usage. Your revenues were up $16,000.00, expenditures were up

$10,000.00. It's very consistent from year to year. Not included in that current year expenditures are your debt principle and interest payments. Those are about $1,080,000.00. That is reimbursed from RDO for their water treatment facility. The cash for this fund is down $164,000.00. If you look at the cash flow statements a lot of that is because of the purchase of the jetter/vactor for the city.

Piekarski stated the gross profit for the liquor fund was 20%. That was the same as 2012. Sales did increase $86,000.00. As the sales increased, so did your costs at $68,000.00. This did increase from that position for fiscal year of the city by $261,000.00. The city was very conservative by only transferring out $85,000.00 this year. They budgeted to transfer out almost $500,000.00. Good job keeping the money in the liquor fund because they are going to have capital needs in the future.

Piekarski stated the storm water fund is relatively new for the city. It's in its third year of operation. There's not a lot of history to show for it. It did have a good year. The cash was up about $84,000.00. There are some projects planned for this one in the future.

Piekarski stated the final graph shows your annual debt service principal and interest payments. The total debt outstanding at the end of the year was $22.8 million. Of that $4.3 million is for interest. That drop off from 2015 to 2016 is just a refunding debt. Right now the cash is paying the new debt and is in escrow and it's making payments. So when that drops off the city will still have the same amount of payments, it's just the new debt will be added and the old debt will be paid off from the escrow account.

Piekarski stated I've provided my contact information if you have any questions in the future. I'd like to thank Brumbaugh and her staff for all the hard work they do for us.

4. ADJOURNMENT: **A motion was made by Utke, seconded by Randall, and unanimously carried to adjourn the special meeting at 5:58 p.m.**

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Mayor Pat Mikesh

ATTEST:

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Margie M. Vik
City Clerk