# CITY OF PARK RAPIDS
# CITY COUNCIL WORKSHOP
# JULY 28, 2015, 5:15 PM
# Park Rapids Public Library-Lower Level
# Park Rapids, Minnesota

**1. CALL TO ORDER:** Acting Mayor Paul Utke called the City Council Workshop for July 28th, 2015 to order at 5:15 p.m.

**2. ROLL CALL:** Present: Acting Mayor Paul Utke, Councilmembers Dave Konshok, Rod Nordberg, and Erika Randall. Absent: Mayor Pat Mikesh. Staff Present: City Administrator John McKinney, Treasurer Angela Brumbaugh, Public Facilities Superintendent Chris Fieldsend, Liquor Store Manager Scott Olson, Planner Ryan Mathisrud, and Clerk Margie Vik. Others Present: KDV Auditor Caroline Stutsman, Dick Rutherford, and Kevin Cederstrom from the Enterprise.

**3. PRESENTATION:**

**A. Results from the 2014 Audit by KDV:** Caroline Stutsman, with Kern, DeWenter, & Viere Auditing Firm (KDV), stated the main reason we work with you is to analysis your financial statements. That is done with an independent auditor's report. That report summarizes both your responsibilities as well as ours. It indicates that management's responsibility is for the fair presentation of the financial statements. Staff provides us with the numbers, and we are then auditing the numbers. The standards don't allow us to determine those numbers first. Our responsibilities are to provide you with audited financial statements. The opinion we provide for you is what's called an unmodified opinion. That's the highest level that you can receive. We believe the financial statements are fairly stated in all the material respects as of December 31st, 2014.

Stutsman stated in addition to that we conducted our audit in accordance with government auditing standards. Those standards require us to consider internal controls as we go through the numbers. As a result of that we have a finding in relation to internal controls. They are all items that you would have seen in the past. They are very common for cities of your size. While you're not seeing them taken't off, that's very normal, and not something that we're concerned about. Because you received and spent federal expenditures in excess of $500,000.00 you are also required to look at some specific programs within there. This year we looked at the airport program. There were no findings in relation to that.

Stutsman stated an additional step of our audit is to report on the results of testing according to Minnesota Legal Compliance audit guide. The Office of the State Auditor puts together about seven different checklists full of Minnesota State Statutes that they want us to ask about as we go through your numbers. We have only one recommendation for you in regards to a bid where only one quote was obtained when based on the threshold you should have obtained multiple bids. That's a common issue with some of the bidding procedures if you're not going through it on a regular basis that happens sometimes.

Stutsman stated in total general fund revenues did increase for the year, by nearly 7%, or about $188,000.00. If you break that down by the components that are identified here, intergovernmental revenue was the biggest contributor to that. It increased nearly $150,000.00. That was the result of an increase in your local government aid (LGA). Miscellaneous revenue increased about $77,000.00. The market value of your investments came in at a better rate. On December 31st, 2013, right before year end there was a dip in market values. That was all recouped in your market values. It went back to a normal range by December 31st, 2014. Charges for services decreased about $4,000.00 for the year. There were fewer fire calls in 2014.

Stutsman stated if we do a whole five year analysis revenues increased about $361,000.00, taxes as well as intergovernmental revenues contributed to those total increases over the five year period. If we look at the general fund revenue from a budget to actual, total revenues were over budget about 2.7%. That's about $75,000.00. We have a few things moving in different directions here, property taxes were under budget by $25,000.00. That's due to the process where you budget for the entire levy and there's always delinquents. That's common to see. Intergovernmental revenues were over budget by $52,000.00. There was some additional state supplementary fire aid and in addition to that there was more police aid that was received than was originally budgeted. The miscellaneous revenues were over budget again because of the interest from the investments. One thing to note about the budget here and on the expenditure side of things there was only one budget. There weren't any amendments made. The budget that was approved a few months in advance and it was determined that amendments weren't necessary. You were pretty close.

Stutsman stated total expenditures did decrease .8%, or about $21,000.00. That is pretty consistent with the prior year, looking at 2014. Then breaking it down by the various categories that you have, public safety increased about $53,000.00. That was pay increase and benefits that go along with it and maintenance work on the fire vehicles. Public works decreased about $31,000.00. There was less spent for snow and ice removal in 2014. In the capital outlay/other there's some economic development and major conservation items in there. That category decreased about $71,000.00. Most of that had to do with the sealcoating that you originally were planning to do. You have since moved that to the capital improvement plan. Looking at the five year analysis, going back to 2010, the expenditures are up about $288,000.00. Most of that being in the public safety area at $154,000.00.

Stutsman stated taking a similar look at those expenditures from a budget to actual standpoint, expenditures were actually under budget. General government was under by $13,000.00. A number of things played into this. You were originally budgeting for a full time administrator. That has now been contracted at this time. The planner position was also open at the end of the year. Also, legal fees were not as much as anticipated. A few things contributed to that. The park and recreation was under budget by $3,000.00 due to less time spent in this particular area.

Stutsman stated next we look at the general fund cash and investments. You will see some fluctuations. A lot of that has to do with the timing of your tax settlements that you receive every six months. It drives home the importance of the cash and fund balance at the end of December. That does need to get you all the way to June when you receive your next settlement. That's one of your biggest funding sources. We talk about that in relation to where you are at the end of the year. A 50% range is well in line with what you'll need to get through the next six months. Looking at where the general fund cash investment balance was in December, the general fund is currently covering other funds that are falling below. If the general fund was not doing that, the cash/investment balance would be an additional $2.2 million higher. We'll look at the make-up of that. The numbers aren't included here but, currently as of December 31st, 2014, the unassigned fund balance represents 52% of your current spending levels. That's in line with your policy. It indicates no less than 50%. That's up from where you were in 2013. You were at 45%. Now you are in compliant with that policy that you set for yourself. Keeping that at 50% will get you through the next year. You're right where you'd like to be.

Stutsman stated the next chart looks at the breakdown of what the general fund is helping other funds out with from a cash prospective. The largest portion is in the airport fund. That has to do with the timing of the receipts, making the draws for the reimbursement of the expenditures going out. The airport fund currently has a receivable in an amount that the other governments are going to pay them, and then in turn they'll reimburse the general fund. After considering that there is about $721,000.00 left in cash deficits, $158,000.00 is due to TIF districts. There's about four different TIF districts contributing to that, numbers five, seven, nine, and ten. It's anticipated that most of that will be recovered, but not all. $560,000.00 is related to capital projects. Some of this will be covered with the bond proceeds in 2015. Half of that is projected to not have a funding source at this time. Keep that in mind as well. In general spending while not insuring that there is a funding source there for that does affect other funds.

Stutsman stated for the past five years the tax capacity has climbed. The recession came into play, but we're starting to see that tax capacity level off. In looking to the future we are starting to see some increases and see things turn around a bit in that regard. Over that same timeframe the levy increased about $315,000.00 from just the pure mechanics of those two things changing. It does impact that tax capacity rate, to the point of increasing it about 16%. That is about where the state average currently is. That number has been pretty consistent for you over the past five years.

Nordberg questioned the 16% is the blue line, and what does the 56% represent? The percentage of what? What is the 16% increase that you are talking about? Stutsman stated the variance between the two could be a number of variations. Each city is unique. Again, it's a state average. Some cities may have a large amount of debt and that plays into the total levy. The value of property is also a contributing factor, so the property you have here versus another city could be entirely different. There's lots of different things that do play into that. But it's something to be aware of. Nordberg questioned what you're saying is that our numbers are higher than the state average? Stutsman answered correct. Konshok questioned do you have an outstate Minnesota rate? Stutsman stated right now it includes the metro. It's a full state average. It's not broken down by any particular area. You have some lake homes. That plays into it as well and the values. There's lots of different factors that go into those calculations. The jumping around is more than tax capacity with what's been happening in the markets and the recession. That part has been out of your control. It's good to see that's been rebounding and will help to level things off a bit for you.

Stutsman stated the operating water enterprise fund did increase by about $5,000.00. It's relatively consistent on the revenue side. Expenses increased $238,000.00. The increase in revenue is related to rates and the slight increases that occurred there. On the expense side of things there was more depreciation for this fund as is every year.

There were also some meters that were purchased during the year so you're seeing an elevated expense this year for that. That's a onetime purchase. Those operations lead to an operating loss of $275,000.00 for the year. That includes the depreciation expense of $474,000.00. You're seeing an increase this year because the water treatment facility was added, so you have additional depreciation expenses for that facility. One thing to note, that would not include non-operating items, like transfers, debt, interest, or capital contributions. That falls below the lines we are talking about here. Debt for enterprise funds can still be a significant dollar amount that you need to consider when you are looking at the operations of the fund. For the water fund the principal and interest payments together are $106,000.00. Those are significant dollars for this fund. In the end, cash did increase, nearly $200,000.00 for the year. That had to do with the timing of the PFA receipt in the prior years.

Stutsman stated some of the analysis that we like to do with these funds is to compare the operating loss with depreciation to the operating income without depreciation. We like to look at the two to see the difference. That helps us analyze how much of the depreciation is being covered by the operating revenues that you are bringing in. That's a forward way to think of the replacement costs of the infrastructure and the assets that you have, because these funds, water and sewer both, are infrastructure heavy and there are significant costs related to that. Determination from you as far as how much of that you'd like to cover and to have that as your benchmark when you're analyzing the funds and determining where you'd like them to be. Various cities approach that differently. It's all up to you as to how you are going to do that. Keep in mind that future replacement. Right now you're covering about 40% of depreciation in this fund.

McKinney questioned how is the depreciation allowance determined? Stutsman stated there are various categories of assets and for each of those there's a policy that determines how long, based on the useful life of the particular asset, and how long you are going to depreciate that value. Mathisrud questioned is the 40% for the entire cost of the asset, or just for the city's portion to purchase that asset? Stutsman stated the 40% is total fund-wise, so it's not each particular asset you're determining. This is strictly total operations all together. Again you have the meter purchase in there. Utke stated we had both the meters and the water treatment plant. That's two big pieces that went into last year. Stutsman stated the water treatment plant will continue. That won't fall off, but the water meters will. Brumbaugh stated the meters are not being depreciated because it's not something that we will replace again. Typically we do not purchase the meters. If it's replaced now it will be by the property owner. But the treatment facility is huge. The depreciation is based on our schedule. Stutsman stated your policy says anywhere from twenty to fifty years for depreciation on infrastructure depending on what it is.

Nordberg questioned can you give us an idea of what other cities cover for major things, and 40% is where? Stutsman stated what I will say, for the water fund, it ranges from covering all to 50%. For the sewer fund that is harder to fully fund because there is even more infrastructure. It's rare to see that one fully funded because that would be a significant cost for the residents. But the water fund we see closer towards the end of covering it, but you do see some with a picture like this as well. McKinney stated by the nature of the funds if we were to increase our depreciation contribution we'd have to raise our rates. Stutsman agreed. Brumbaugh stated this is the year that we have an interesting revenue because of the water freezing. That was very difficult to calculate for the auditors because nothing was normal.

Nordberg questioned how does covering or not covering depreciation effect your eligibility for PFA? If you really go in the hole and don't allow for any depreciation does the state say here's some money for you? Stutsman stated I think they are going to look at the water fund, but they're going to also look at the city as a whole. If you start dipping down in the water fund, or spend a little bit over, and the cash balances are having to be recouped operation-wise, then it will tick down a little bit each year, and then the general fund is having to help out with that. You don't want to get into that situation either. I would be guessing to say I know the answer. They would look at everything.

Brumbaugh stated they always look at the cash balances, not just if we're funding depreciation. Stutsman stated you're unrestricted in that position, that's another way you can look at things. Your net position, which is your equity position, there's a couple of lines there. There's a net investment in capital assets, that's the net value, the net value of your capital assets, those dollars have already left the building. You can't count on those to pay your future operations. What's leftover is your unrestricted net position. That's more of what's available for future operations. If you look at that component for the water fund, it decreased about $300,000.00 for the year. That component takes into account all of the operations that are happening, kind of which direction the fund is headed. There's several ways to analyze the fund to see what all is happening. Brumbaugh stated PFA does request our audit every year. They look at it to make sure everything is okay. McKinney stated 2014 was a bit abnormal. Stutsman stated it was. You have things on the revenue side and things on the expense side. On the revenue side, in general, we're seeing usage decline. It's hard to pinpoint because you had some freezing line issues, which was going on across the state. You've also been working on creating awareness of water usage, all of that impacts revenue.

Stutsman stated the sewer analysis is very similar. The revenues increased about $72,000.00 with the change in usage the expenses were up about $127,000.00. Because of those meters that were purchased. You had an operating loss of $845,000.00, including depreciation. There is about $979,000.00 in depreciation. They are very significant dollars for this fund. You're covering about 13% of the depreciation expense. Brumbaugh stated in the sewer fund one of our biggest contributors to depreciation is the R.D.O. plant. We have to have it in here, but it does make a huge difference in the numbers. Stutsman stated in addition to that, your principal and interest payments are not reflected in here, and the R.D.O. loan as well as the offsetting receivables that activity is not in this, in the amount of $1.7 million. McKinney questioned do we own that facility? Brumbaugh stated it is considered our ownership. McKinney stated but we might not replace it with depreciated funds. Stutsman stated if we do that analysis on the unrestricted position with the sewer funds there was an increase of about $53,000.00. Factoring all those things out they offset each other.

Stutsman stated sales in the liquor fund has increased about 2.2%, and costs increased about 2.9%. The effect of that is that the gross profit did go down a little from 2013 at 25%. The results of 2014 were about 24%. The costs are continuing to rise and you're not able to pass as much of that on as you'd like to. The net position in the fund did continue to increase, $162,000.00. It's still a very strong operation.

Stutsman stated the storm water fund is still relatively new so we don't have years of data. But it's continuing to function strong. The cash increased about $85,000.00 and you have some projects planned for that.

Stutsman stated the last chart is for the general obligation service principal and interest payments, which looks out as far as you are obligated, to 2033. The change that you are seeing from 2015 to 2016 has to do with a refunding when one of the bonds reaches its call date. It's inflated at this point. However in 2015 you do have an issue that is going to bump that up. The total debt outstanding for this timeframe is about $19 million.

Nordberg stated, on the cash and investment chart, you mentioned that the chart is showing a steep decline due to the receipt of taxes, and that happens twice a year. What happened in 2013 that had an okay January? Shouldn't January of 2013 have been just as bad as December 2014? Stutsman stated part of it is this is just the general fund, and it's covering expenses in the airport fund until the airport receives some funds. So cash itself is down, but the general fund also has a receivable or amount due from the airport fund. As soon as the airport fund gets their dollars they are going to pay the general fund right back. Utke questioned so that's the drop in 2014, the airport owes money? Stutsman stated some of your other funds may have fluctuated too, but the airport fund is the biggest one.

Nordberg stated the fact that the budget is so close is really a tribute to Brumbaugh and other staff, but especially the revenue. It's amazing how close it came through all our budget process. The expenditures were close too. The percentage is so small a variance.

**<u>4. ADJOURNMENT</u>: A motion was made by Randall, seconded by Nordberg, and unanimously carried to adjourn the workshop at 5:50 p.m.**

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Acting Mayor Paul Utke

ATTEST:

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Margie M. Vik
City Clerk