

**CITY OF LAKEVILLE, MINNESOTA**  
**EXECUTIVE AUDIT SUMMARY**  
**YEAR ENDED DECEMBER 31, 2018**



**CliftonLarsonAllen**

CliftonLarsonAllen LLP  
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June 6, 2019

To the City Council and Management  
City of Lakeville, Minnesota

We have prepared this management report in conjunction with our audit of the City of Lakeville, Minnesota's (the City) financial statements for the year ended December 31, 2018. The purpose of this report is to provide comments resulting from our audit process and to communicate information relevant to city finances in Minnesota. We have organized this report into the following sections:

- Audit Summary
- Governmental Funds Overview
- Enterprise Funds Overview
- Government-Wide Financial Statements
- Legislative Updates
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the City, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information relevant to city finances in Minnesota. Accordingly, this report is not suitable for any other purpose.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
June 6, 2019

## AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the City Council, administration, or those charged with governance of the City.

### **OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2018, and the related notes to the financial statements. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally, in our Governance Communication Letter, and in our audit engagement letter. Professional standards also require that we communicate the following information related to our audit.

### **PLANNED SCOPE AND TIMING OF THE AUDIT**

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

### **AUDIT OPINION AND FINDINGS**

Based on our audit of the City's financial statements for the year ended December 31, 2018:

- We issued an **unmodified** opinion on the City's basic financial statements.
- We reported no deficiencies in the City's internal control over financial reporting that we considered to be material weaknesses or significant deficiencies.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported one finding based on our testing of the City's compliance with Minnesota laws and regulations.

Overall, we found the City's financial records to be in excellent condition. This not only provides for an efficient year-end audit, but should also provide confidence in the interim financial data used to manage the City throughout the year.

## GOVERNMENTAL FUNDS OVERVIEW

This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which include the General, special revenue, debt service, and capital project funds.

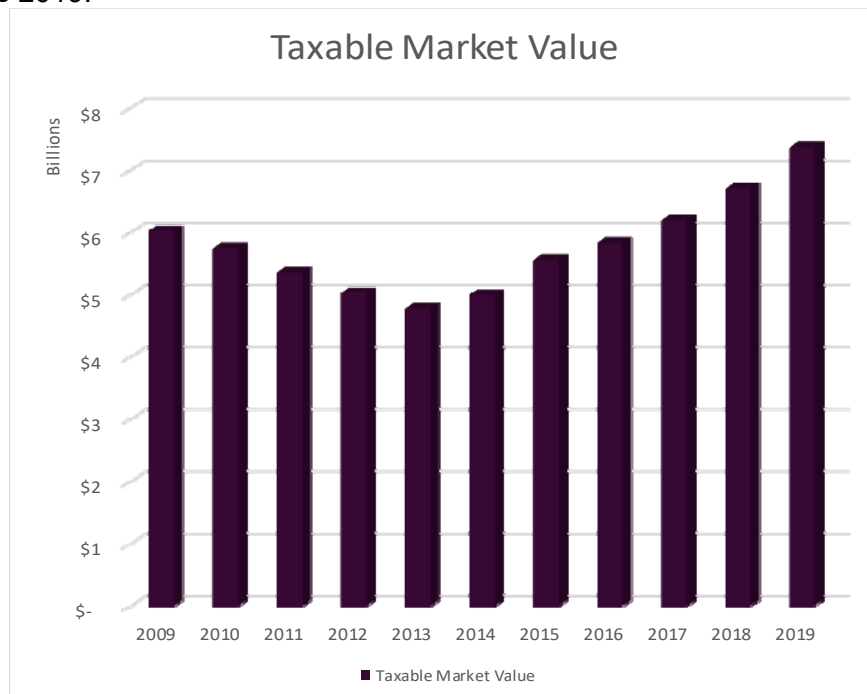
These funds are used to account for the basic services the City provides to all of its citizens, which are financed primarily with property taxes. The governmental fund information in the City's financial statements focuses on budgetary compliance, and the sufficiency of each governmental fund's current assets to finance its current liabilities.

### PROPERTY TAXES

Minnesota cities rely heavily on local property tax levies to support their governmental fund activities. For the 2017 fiscal year, local ad valorem property tax levies provided 41.1 percent of the total governmental fund revenues for cities over 2,500 in population, and 37.4 percent for cities under 2,500 in population. Property tax levies certified by Minnesota cities for 2018 increased about 5.6 percent over 2017, compared to an increase of 5.5 percent the prior year. Levy limits were not in place for 2017 or 2018.

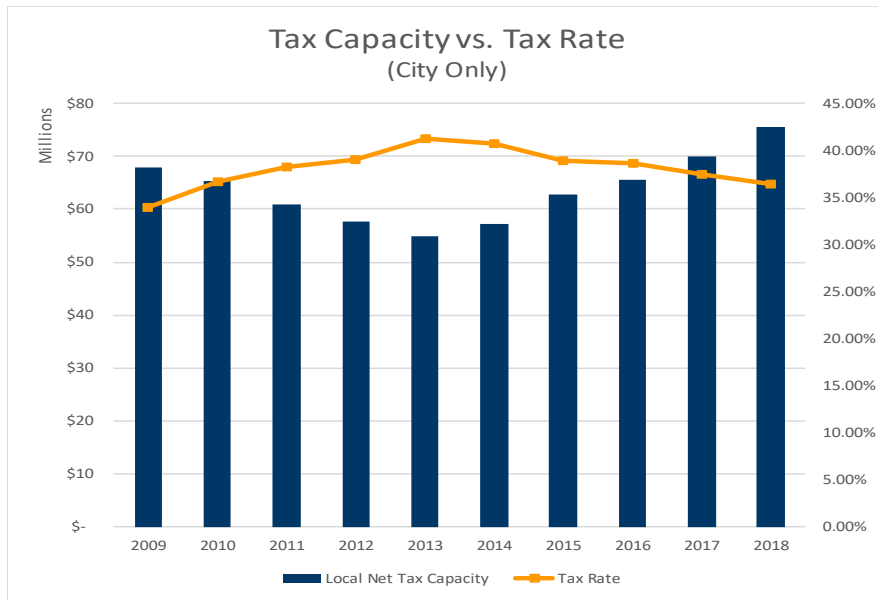
The total market value of property in Minnesota cities increased about 5.3 percent for the 2018 levy year, following an increase of 5.6 percent for levy year 2017, an increase of 5.7 percent for 2016, an increase of 8.5 percent for 2015, a slight increase of 1.1 percent for 2014, and a four-year trend of declining market values for levy years 2010 through 2013. Market values showed increases across all property categories for 2018 except for agricultural/rural vacant land, with gains in the market values of residential homestead properties (6.4 percent) and non-homestead residential properties (6.8 percent). Because the assessed valuation used for levying property taxes is based on values from the previous fiscal year (e.g., the market value for taxes payable in 2018 is based on estimated values as of January 1, 2017), market value improvement has lagged behind recent upturns in the housing market and the economy in general.

The City's taxable market value increased 6.5 percent for taxes payable in 2017 and 8.1 percent for taxes payable in 2018. The following graph shows the City's changes in taxable market value over the past 10 years plus 2019:



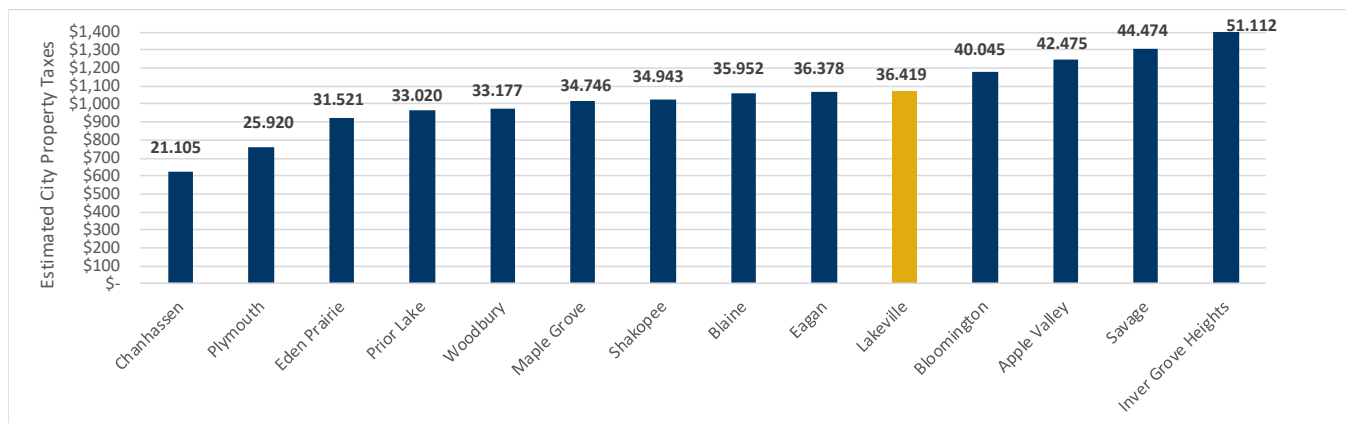
Tax capacity is considered the actual base available for taxation. It is calculated by applying the state’s property classification system to each property’s market value. Each property classification, such as commercial or residential, has a different calculation and uses different rates. Consequently, a city’s total tax capacity will change at a different rate than its total market value, as tax capacity is affected by the proportion of the City’s tax base that is in each property classification from year-to-year, as well as legislative changes to tax rates and exemptions. The City’s tax capacity increased 7.9 percent and 6.5 percent for taxes payable in 2018 and 2017, respectively.

The following graph shows the City’s change in tax capacities over the past 10 years:



Past reports included a comparison of property tax capacity rates between the City, seven-county metro area, and all cities state-wide average. The 2017 and 2018 comparison data was not available for the seven-county metro area nor all cities state-wide; therefore, the chart is not included this year.

The following chart provides a comparison of how the City’s property taxes compare to other comparable cities:



This chart is based on the City of Lakeville’s median home value of \$304,600 and estimated taxable market value of \$293,684. The City of Lakeville when compared to other local cities is right in the middle. This chart is an estimate of **only** the City’s portion of taxes and excludes other taxing jurisdictions (i.e. schools, county, special districts). This chart also includes the respective city tax rates.

## GOVERNMENTAL FUND BALANCES

The following table summarizes the changes in the fund balances of the City's governmental funds during the year ended December 31, 2018, presented both by fund balance classification and by fund:

	Fund Balance		Increase (Decrease)
	As of December 31,		
	2018	2017	
<b>Fund Balances of Governmental Funds</b>			
Total by Classification			
Nonspendable	\$ 888,024	\$ 914,375	\$ (26,351)
Restricted	25,773,762	29,887,820	(4,114,058)
Committed	30,327,238	26,519,559	3,807,679
Assigned	705,500	741,864	(36,364)
Unassigned	13,595,990	12,736,609	859,381
	<u>\$ 71,290,514</u>	<u>\$ 70,800,227</u>	<u>\$ 490,287</u>
Total by Fund			
General	\$ 15,696,442	\$ 15,269,442	\$ 427,000
General Obligation Debt Service	3,377,588	5,176,628	(1,799,040)
G.O. Improvement Debt Service	10,602,818	9,976,390	626,428
Building Capital Projects	1,317,522	712,944	604,578
Improvement Construction Capital Projects	1,754,599	937,224	817,375
Municipal State Aid Capital Projects	696,520	3,150,076	(2,453,556)
Nonmajor Funds	37,845,025	35,577,523	2,267,502
	<u>\$ 71,290,514</u>	<u>\$ 70,800,227</u>	<u>\$ 490,287</u>

In total, the fund balances of the City's governmental funds increased \$490,287 during the year ended December 31, 2018.

The majority of the increase was due to the use of restricted fund balances of \$4.1 million which offset an increase in the committed fund balances of \$3.8 million and unassigned fund balances of \$859 thousand, from the prior year. The decrease in restricted fund balances was due to the refunding of the City's Capital Improvement Bonds Series 2009A – Build America Bonds. The increase in the committed balance was primarily related to the collection of water and sanitary sewer trunk fees in the capital projects funds.

The increase in unassigned fund balance was also primarily due to the City generating \$1.3 million more than budgeted for revenues as well as \$.5 million under budget on expenditures.

## GOVERNMENTAL FUNDS REVENUE AND EXPENDITURES

The following table presents the per capita revenue of the City's governmental funds for the past three years, along with state-wide averages.

We have included the most recent comparative state-wide averages available from the Office of the State Auditor to provide a benchmark for interpreting the City's data. The amounts received from the typical major sources of governmental fund revenue will naturally vary between cities based on factors such as the City's stage of development, location, size and density of its population, property values, services it provides, and other attributes. It will also differ from year-to-year due to the effect of inflation and changes in the City's operation. Also, certain data on these tables may be classified differently than how they appear on the City's financial statements in order to be more comparable to the state-wide information, particularly in separating capital expenditures from current expenditures.

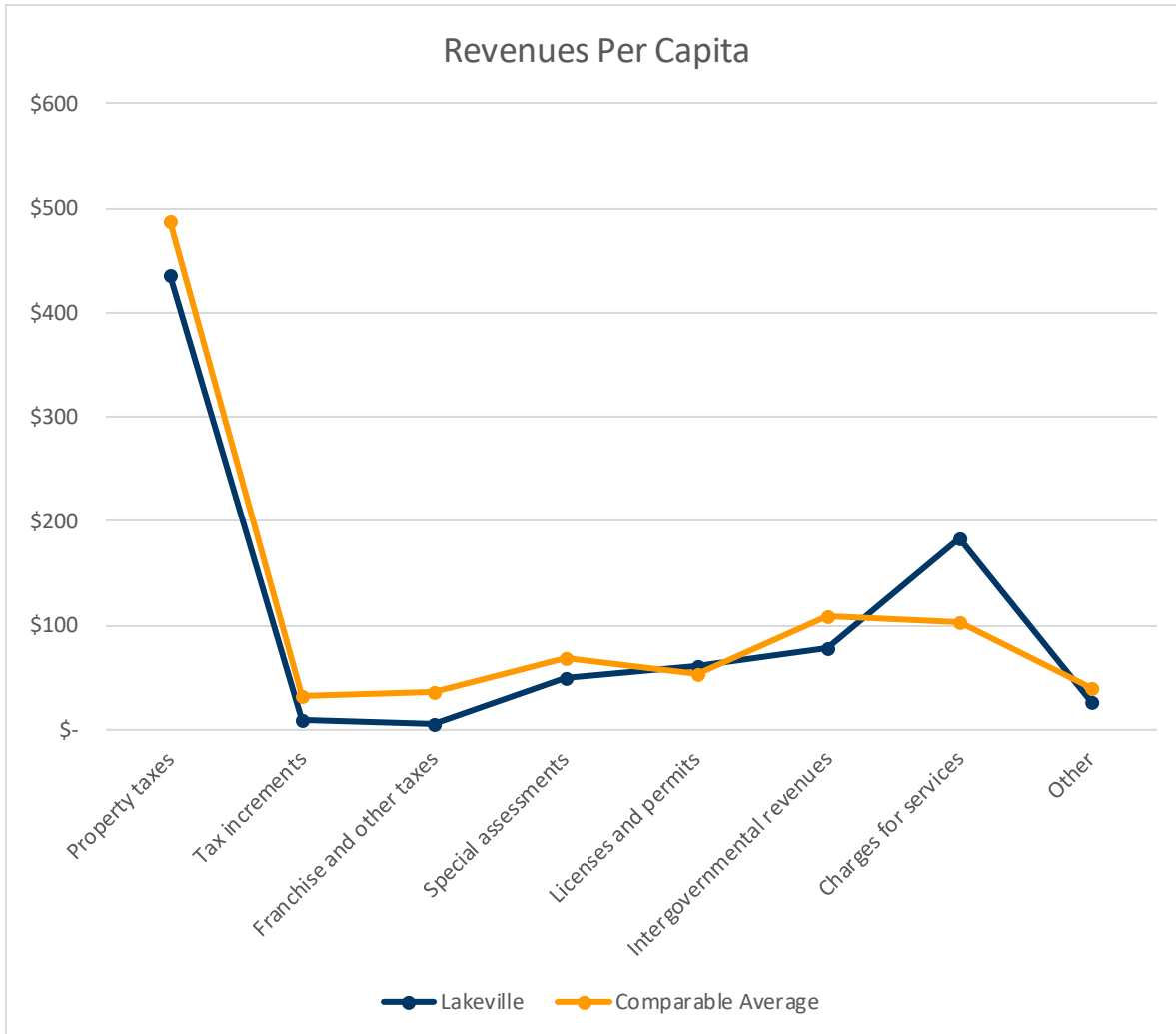
We have designed this section of our management report using per capita data in order to better identify unique or unusual trends and activities of your city. We intend for this type of comparative and trend information to complement, rather than duplicate, information in the Management's Discussion and Analysis. An inherent difficulty in presenting per capita information is the accuracy of the population count, which for most years is based on estimates.

Governmental Funds Revenue per Capita With State-Wide Averages by Population Class				
Year	State-Wide	City of Lakeville		
	December 31, 2017	2016	2017	2018
Population	20,000 - 100,000	60,965	61,993	64,334
Property taxes	\$ 475	\$ 421	\$ 433	\$ 436
Tax increments	38	7	9	9
Franchise and other taxes	48	7	6	5
Special assessments	59	38	45	49
Licenses and permits	49	61	64	61
Intergovernmental revenues	147	148	61	79
Charges for services	103	218	162	184
Other	48	29	21	27
<b>Total Revenue</b>	<b>967</b>	<b>929</b>	<b>801</b>	<b>849</b>

The City's governmental funds have typically generated less revenue per capita in total than other Minnesota cities in its population class.

Total governmental funds revenues were \$54.6 million in 2018, about \$4.9 million (10.0 percent) more than the prior year. On a per capita basis, governmental fund revenue for 2018 was \$48 more than the prior year. Property tax revenue was \$3 per capita higher than the previous year due to a levy increase. Intergovernmental revenues were \$18 per capita more than last year due to an increase in municipal state-aid revenue as there were several large capital projects in 2018. Charges for services were \$22 per capita more than last year due to increased in collections of fees during 2018. Revenue in the "other" category shown above increased \$6 per capita.

Below is a table of the City of Lakeville’s 2018 governmental funds revenue per capita as compared to the average per capita revenues for the governmental funds of several comparable cities for the year 2017. The comparable cities included in the average below (and in any other instances of a comparable city average included in this report) are Apple Valley, Blaine, Bloomington, Chanhassen, Eagan, Eden Prairie, Inver Grove Heights, Maple Grove, Plymouth, Prior Lake, Savage, Shakopee, and Woodbury.



The expenditures of governmental funds will also vary from state-wide averages and from year-to-year, based on the City’s circumstances. Expenditures are classified into three types as follows:

**Current** – These are typically the general operating type expenditures occurring on an annual basis, and are primarily funded by general sources such as taxes and intergovernmental revenues.

**Capital Outlay** – These expenditures do not occur on a consistent basis, more typically fluctuating significantly from year-to-year. Many of these expenditures are project-oriented, and are often funded by specific sources that have benefited from the expenditure, such as special assessment improvement projects.

**Debt Service** – Although the expenditures for debt service may be relatively consistent over the term of the respective debt, the funding source is the important factor. Some debt may be repaid through specific sources such as special assessments or redevelopment funding, while other debt may be repaid with general property taxes.

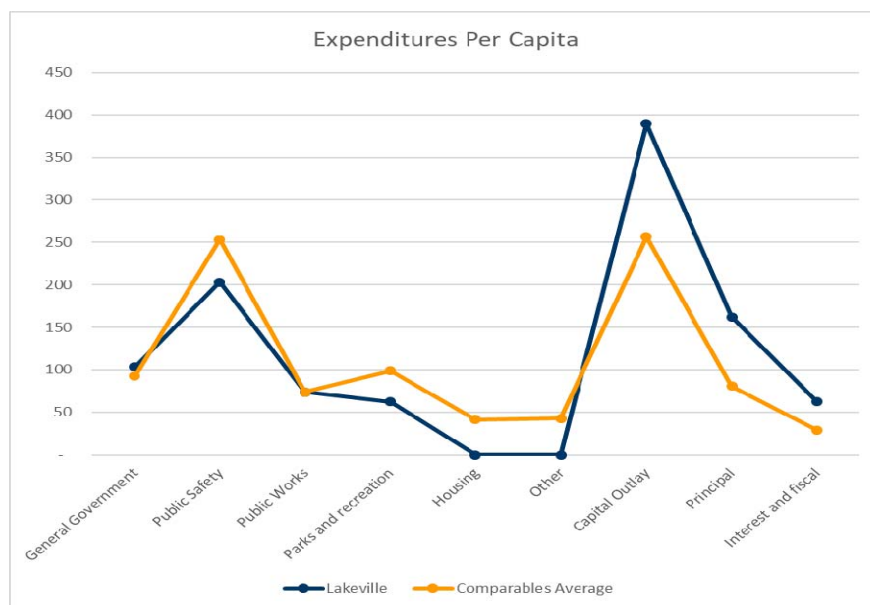


The City's expenditures per capita of its governmental funds for the past three years, together with state-wide averages, are presented in the following table:

Governmental Fund Expenditures per Capita With State-Wide Averages by Population Class				
Year	State-Wide	City of Lakeville		
	December 31, 2017	2016	2017	2018
Population	20,000 - 100,000	60,965	61,993	64,334
<b>Current</b>				
General Government	\$ 101	\$ 95	\$ 104	\$ 103
Public Safety	287	189	206	203
Public Works	103	70	158	74
Parks and recreation	95	57	84	62
	<u>586</u>	<u>411</u>	<u>552</u>	<u>442</u>
<b>Capital Outlay</b>				
And construction	222	622	193	390
<b>Debt Service</b>				
Principal	121	97	111	162
Interest and fiscal	32	70	65	63
	<u>154</u>	<u>167</u>	<u>176</u>	<u>225</u>
<b>Total Expenditures</b>	<u><b>961</b></u>	<u><b>1,200</b></u>	<u><b>921</b></u>	<u><b>1,057</b></u>

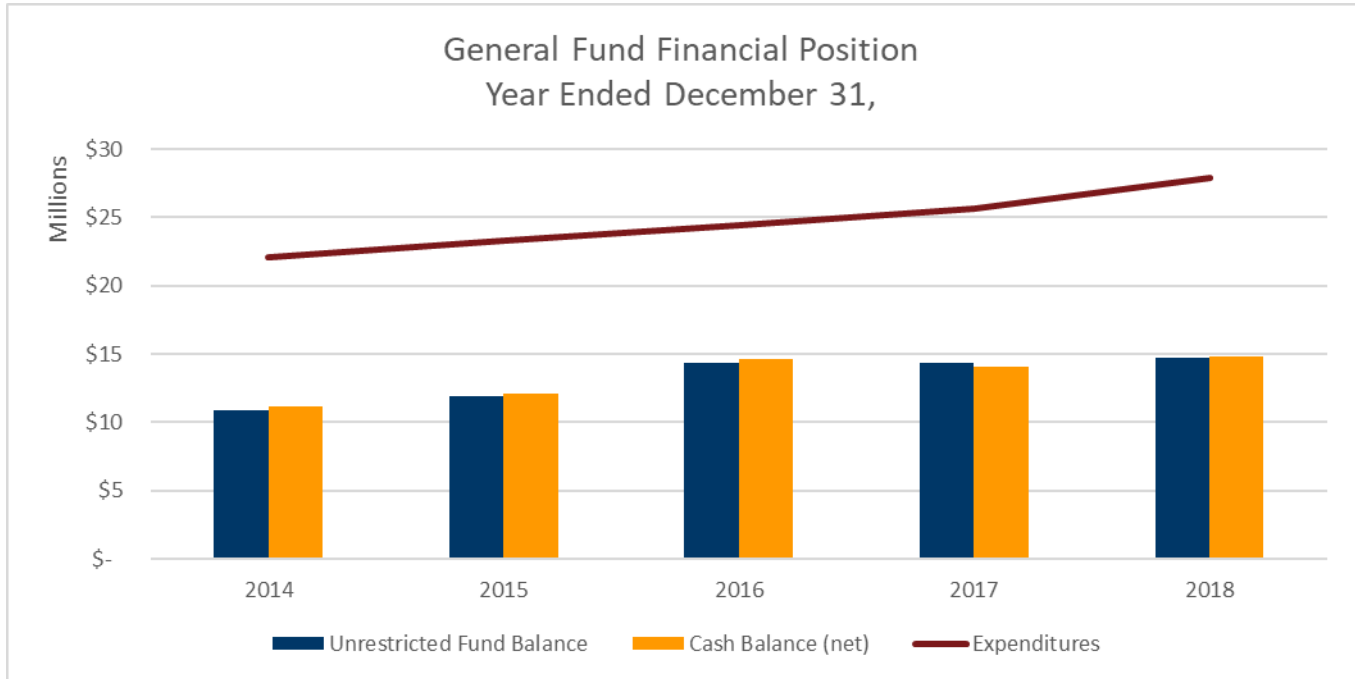
Total expenditures in the City's governmental funds for 2018 were \$67.99 million, an increase of \$10.89 million (19.1 percent) from the previous year, or \$169 per capita. The increase was primarily due to capital outlay, which was \$204 per capita more than the previous year, primarily due to several large street and utility improvement projects during 2018. The increase in capital outlay was offset with decreases in public works and parks and recreation spending per capita of \$78 and \$19, respectively. Scheduled debt service principal and interest costs were also \$56 higher per capita than the prior year.

Below is a table of the City of Lakeville's 2018 governmental funds expenditures per capita as compared to the average per capita expenditures for the governmental funds of several comparable cities for the year 2017.



## GENERAL FUND

The City's General Fund accounts for the financial activity of the basic services provided to the community. The primary services included within this fund are the administration of the municipal operation, police and fire protection, building inspection, streets and highway maintenance, and parks and recreation. The graph below illustrates the change in the General Fund financial position over the last five years. We have also included a line representing annual expenditures to reflect the change in the size of the General Fund operation over the same period.



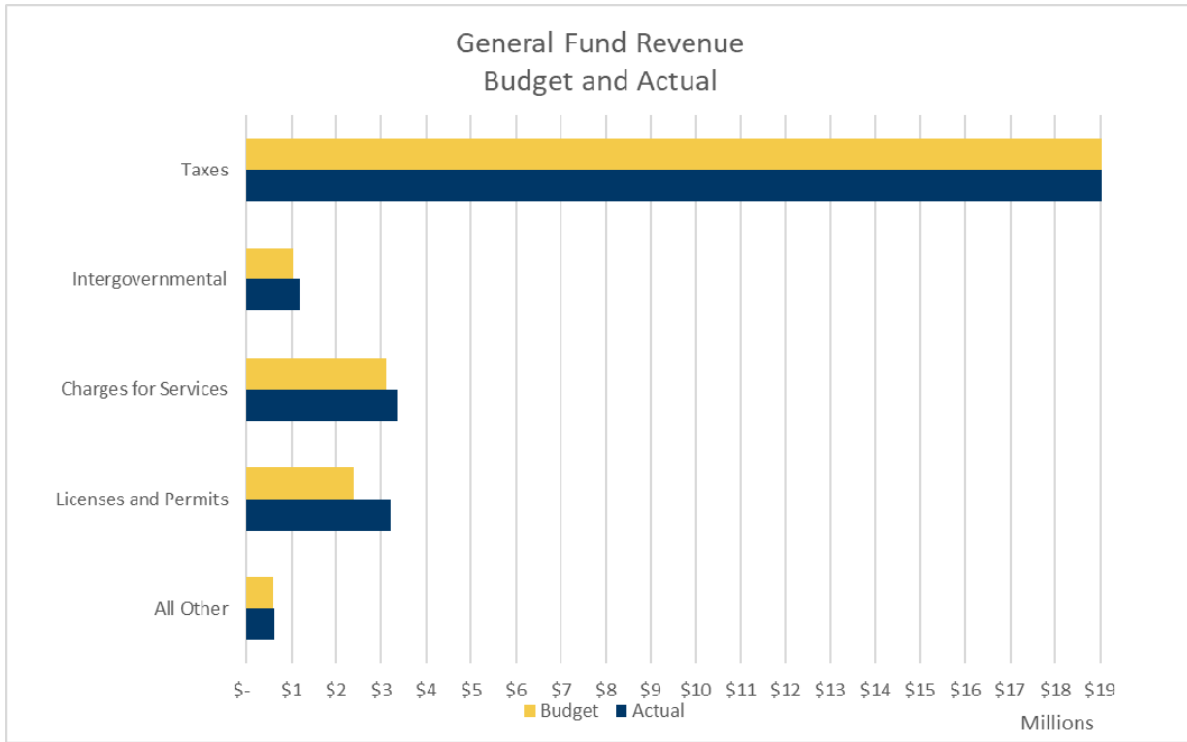
The City's General Fund cash and investments balance at December 31, 2018 was \$14,819,011, an increase of \$746,238. Total fund balance at December 31, 2018 was \$15,696,442, which is an increase of \$463,291 from the prior year, and \$1,849,255 higher than projected in the City's final budget.

As the graph illustrates, the City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has grown. This is an important factor because a government, like any organization, requires a certain amount of equity to operate. A healthy financial position allows the City to avoid volatility in tax rates; helps minimize the impact of state funding changes; allows for the adequate and consistent funding of services, repairs, and unexpected costs; and is a factor in determining the City's bond rating and resulting interest costs. Maintaining an adequate fund balance has become increasingly important given the fluctuations in state funding for cities in recent years.

A trend that is typical to Minnesota local governments, especially the General Fund of cities, is the unusual cash flow experienced throughout the year. The City's General Fund cash disbursements are made fairly evenly during the year other than the impact of seasonal services such as snowplowing, street maintenance, and park activities. Cash receipts of the General Fund are quite a different story. Taxes comprise about 71 percent of the fund's total annual revenue. Approximately half of these revenues are received by the City in July and the rest in December. Consequently, the City needs to have adequate cash reserves to finance its everyday operations between these payments.

The City's General Fund's unrestricted fund balance at the end of the 2018 fiscal year represents approximately 52.8 percent of annual expenditures based on 2018 levels, compared to 56.1 percent at the end of the previous year.

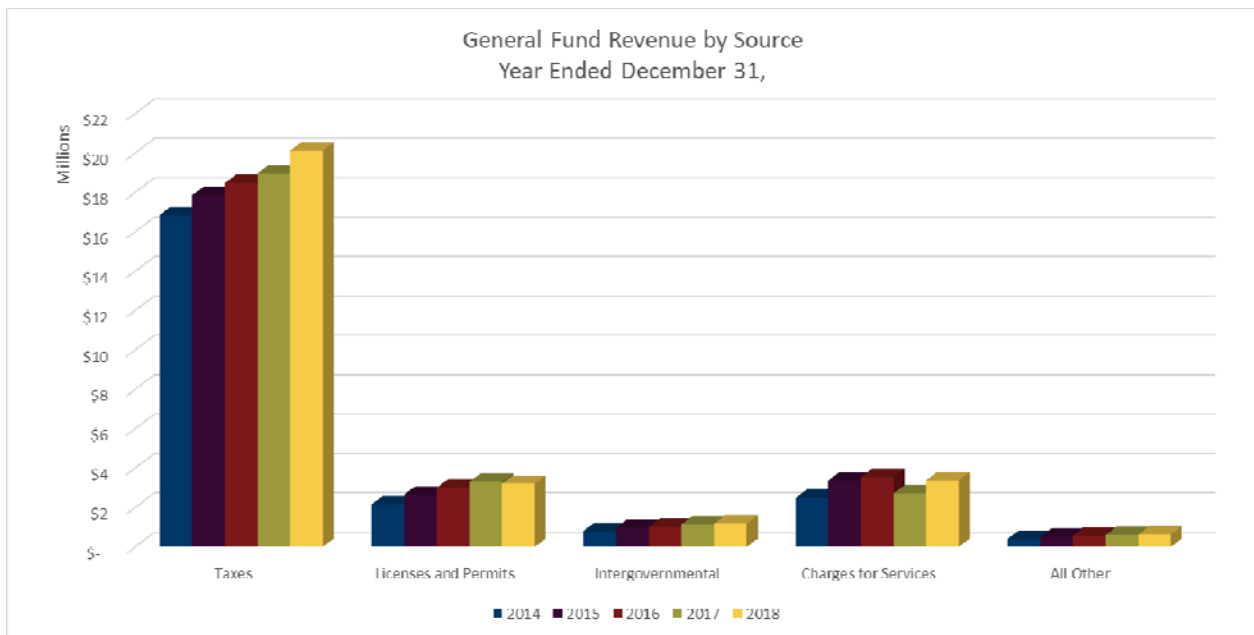
The following graph reflects the City's General Fund revenue sources for 2018 compared to budget:



General Fund revenue for 2018 was \$28,511,716, which was \$1,315,937 (4.8 percent) more than budget.

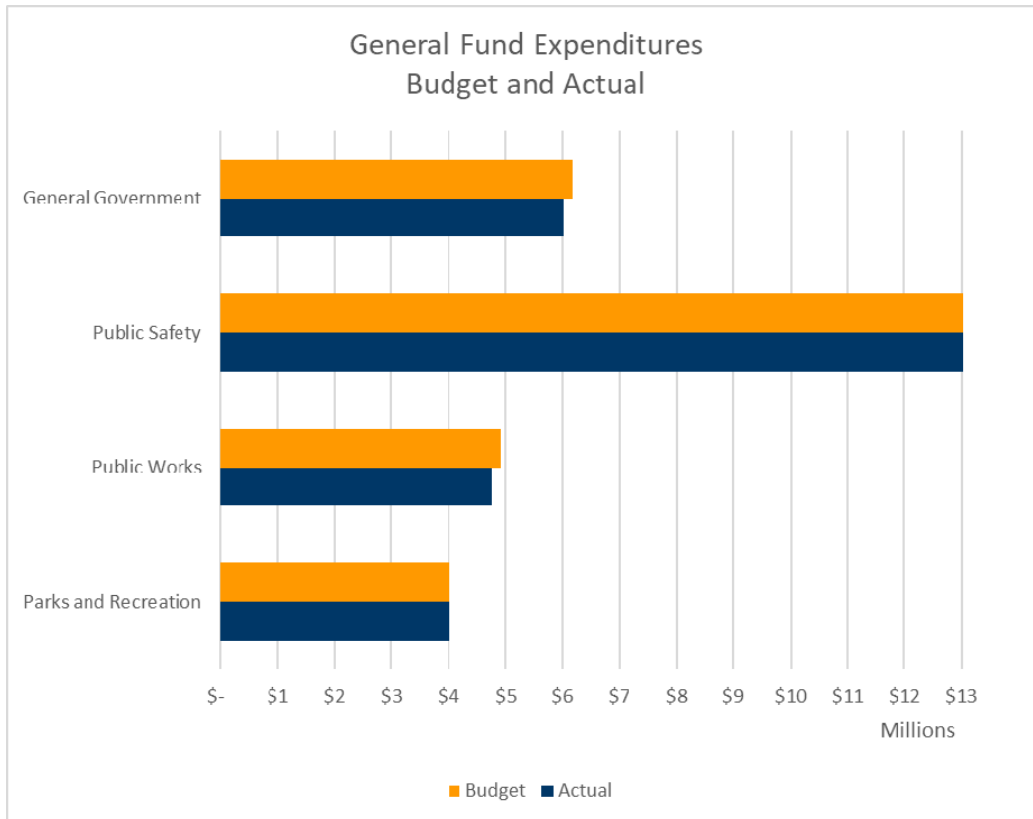
Licenses and permits revenue was over budget by \$821,396, primarily due to the number of residential building and construction related permits issued.

The following graph presents the City's General Fund revenues by source for the last five years. The graph reflects the City's reliance on property taxes and other local sources of revenue.



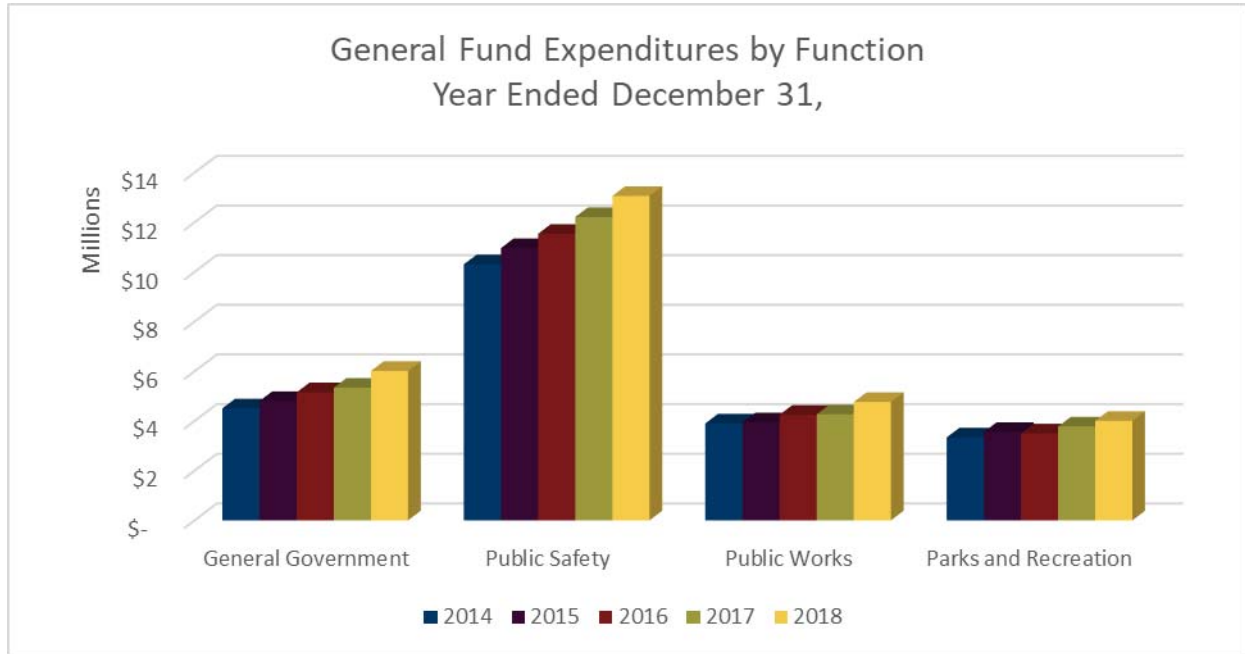
Overall, General Fund revenues increased \$1,775,677 (6.6 percent) from the previous year. Property tax revenue was \$1,149,387 more than last year due to a 4.95 percent increase in the property tax levy. Intergovernmental revenue increased \$37,164 due to additional grants being received. Revenue from charges for services increased \$671,234 due primarily to an increase in public works fees. Licenses and permits decreased \$98,247 due primarily to a reduction in building permits during 2018. Finally, revenue in the “all other” category as shown above was \$16,139 higher than last year, primarily due to an increase in investment returns.

The following graph illustrates the components of General Fund spending for 2018 compared to budget:



Total General Fund expenditures for 2018 were \$27,855,631, which was \$532,118 (1.9 percent) under the final budget. General Fund expenditures were under budget in every functional area except parks and recreation, as shown in the graph above. General government expenditures were \$163,606 under budget, with the largest savings in planning, inspections, information technology, and human resources. Public safety expenditures were \$217,743 under budget, primarily in police personnel charges. Public works expenditures were \$155,086 under budget, mainly in engineering other charges and services and operations and maintenance personnel costs. Parks and recreation costs were over budget by \$4,317, primarily due to the arts center other charges and services.

The following graph presents the City's General Fund expenditures by function for the last five years:



Total General Fund expenditures for 2018 were \$2,248,091 (8.8 percent) higher than the previous year, with the increase spread across all program areas. The majority of the increase was in personnel costs, which were due to contractual wage increases, inflationary benefit cost increases, and the addition of about four full-time employees compared to the prior year.

## ENTERPRISE FUNDS OVERVIEW

The City maintains two enterprise funds to account for services the City provides that are financed primarily through fees charged to those utilizing the service. This section of the report provides you with an overview of the financial trends and activities of the City's enterprise funds, which include the (water, sewer, street light, and environmental resources) Utility Fund and Liquor Fund.

### ENTERPRISE FUNDS FINANCIAL POSITION

The following table summarizes the changes in the financial position of the City's enterprise funds during the years ended December 31, 2018 and 2017, presented both by classification and by fund:

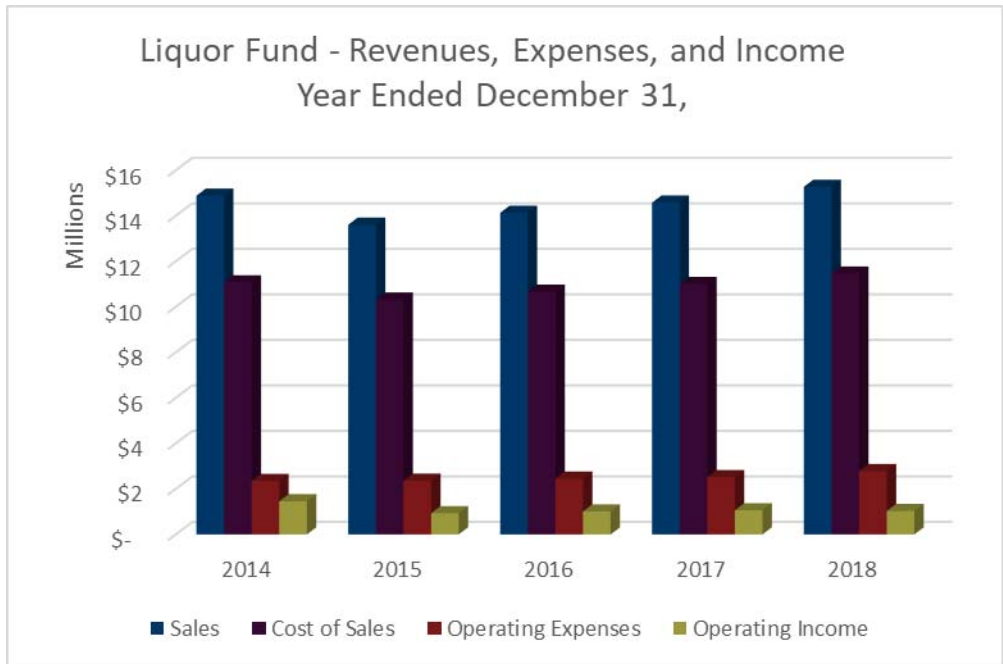
Enterprise Funds Change in Financial Position			
	Net Position		Increase (Decrease) *
	As of December 31,		
	2018	2017	
Net Position of enterprise funds			
Total by classification			
Net Investment in capital assets	\$ 138,725,763	\$ 135,324,120	\$ 3,401,643
Restricted for Debt Service	-	323,875	(323,875)
Unrestricted	13,667,586	10,627,646	3,039,940
Total Enterprise Funds	\$ 152,393,349	\$ 146,275,641	\$ 6,117,708
Total by Fund			
Liquor	\$ 6,087,122	\$ 4,366,329	\$ 1,720,793
Utility	146,306,227	141,909,312	4,396,915
Total Enterprise Funds	\$ 152,393,349	\$ 146,275,641	\$ 6,117,708

In total, the net position of the City's enterprise funds increased by \$6,117,708 during the year ended December 31, 2018. The Liquor Fund net position increased by \$1,720,793, due primarily an 4.8 percent increase in sales as well as the sale of the Kenrick location. Transfers out were \$923 thousand. The increases in both the net investment in capital assets and the net position of the Utility Enterprise Fund were primarily due to capital infrastructure contributions of \$6.4 million received from developers, other government agencies, and the City's governmental funds.

\* The increase (decrease) column above includes the City's restatement related to the adoption of Governmental Accounting Standards Board Statement No. 75 related to accounting for other postemployment benefits. The effects of this adoption resulted in a decrease during the year of \$28,660 and \$40,262 for the Utility and Liquor funds, respectively.

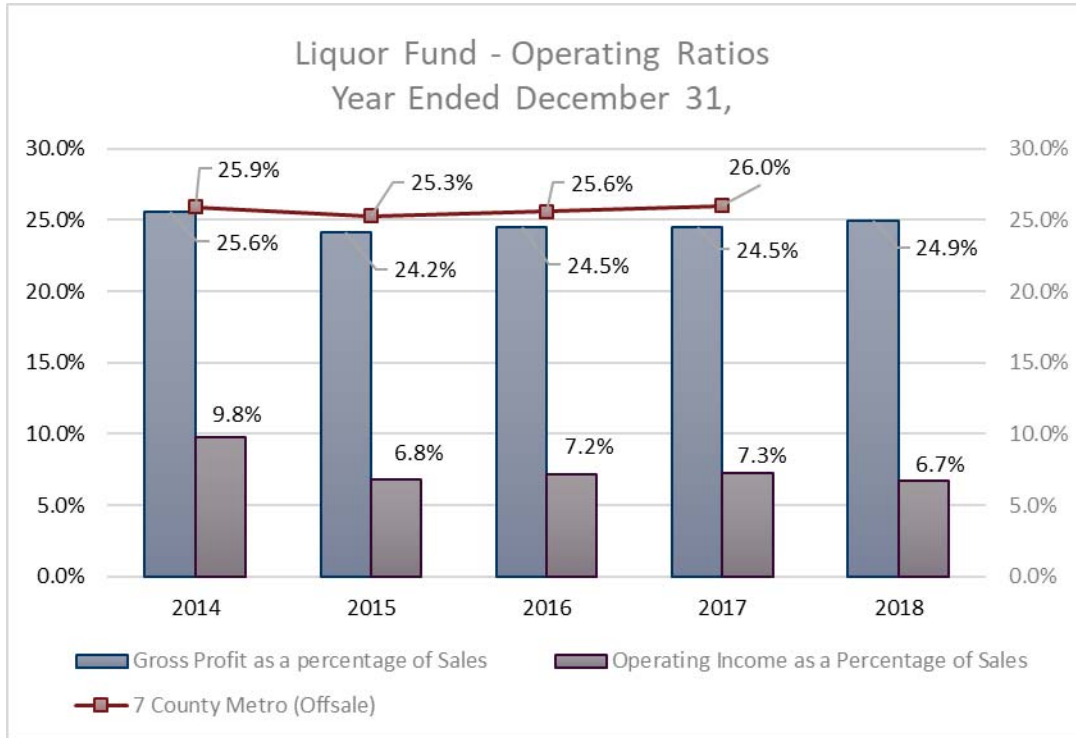
## LIQUOR FUND

The following graphs present five years of operating results for the Liquor Fund:



The Liquor Fund ended 2018 with a net position of \$6,087,122, an increase of \$1,720,793 from current year operations. Of this, \$2,969,637 represents net investment in capital assets leaving an unrestricted net position of \$3,117,485.

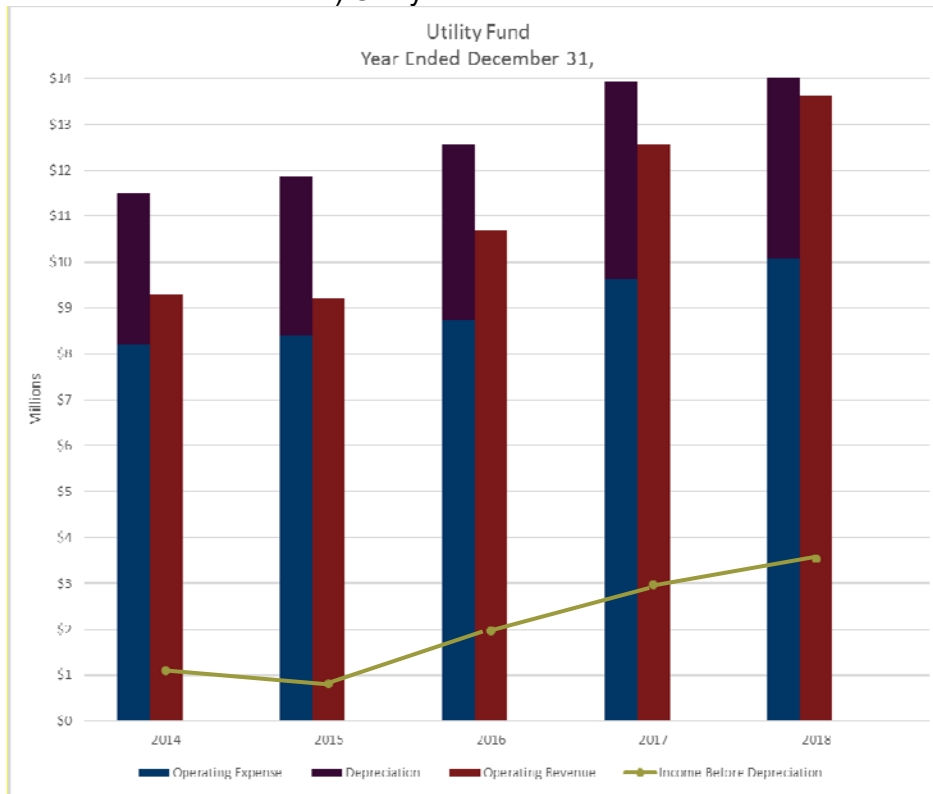
Gross liquor sales for 2018 were \$15,276,433, an increase of \$692,919 (4.8 percent) from 2017. The Liquor Fund generated a gross profit of \$3,810,794 in 2018, or about 24.9 percent, of gross sales. Operating expenses for 2018 were \$2,783,557, an increase of \$265,280 (10.5 percent) from the prior year as it includes seven months of operating lease costs for the Kenrick location. Net operating income for 2018 was \$1,027,237, or about 6.7 percent, of gross sales. The increase in gross sales and the resulting increase in the two operating ratios shown below were primarily attributable to continued stabilization during 2018 as the City has faced significant increases to competition in previous years. The Liquor Fund also made transfers out of \$923,260 to support the General Fund, for debt service, and for various capital needs.





## UTILITY FUND

The following graph presents five years of comparative operating results for the City's (water, sewer, street light, and environmental resources) Utility Fund:



The Utility Fund ended 2018 with net position of \$146,306,227, an increase of \$4,396,915 (including the restatement of \$40,262 related to the adoption of GASB Statement No. 75) from current year operations. Of the net position balance, \$135,756,126 represents the City's net investment in utility capital assets, leaving \$10,550,101 of unrestricted net position.

Utility Fund operating revenue was \$13,613,145 for 2018, an increase of \$1,027,695 (8.2 percent), mainly due to increase in water usage and sewer discharge coupled with an increase in rates.

Operating expenses (including depreciation of \$4,544,612) were \$14,628,460, which represents an increase of \$709,459 (5.1 percent). The increase was primarily attributable to increases in the Met Council disposal charges and depreciation.

The Utility Fund also received capital contributions of \$6,389,619 in 2018 from developers, other governmental agencies, and the City's governmental funds.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

In addition to fund-based information, the current reporting model for governmental entities also requires the inclusion of two government-wide financial statements designed to present a clear picture of the City as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering services, including capital assets and long-term liabilities.

### STATEMENT OF NET POSITION

The Statement of Net Position essentially tells you what your city owns and owes at a given point in time, the last day of the fiscal year. Theoretically, net position represents the resources the City has leftover to use for providing services after its debts are settled. However, those resources are not always in spendable form, or there may be restrictions on how some of those resources can be used. Therefore, net position is divided into three components: net investment in capital assets, restricted, and unrestricted.

The following table presents the components of City's net position as of December 31, 2018 and 2017, for governmental activities and business-type activities:

	As of December 31,		Increase (Decrease)
	2018	2017	
Net Position			
Governmental Activities			
Net Investment in capital assets	\$ 142,300,205	\$ 144,581,700	\$ (2,281,495)
Restricted	45,267,313	46,683,603	(1,416,290)
Unrestricted	15,427,439	6,036,382	9,391,057
Total governmental activities	<u>\$ 202,994,957</u>	<u>\$ 197,301,685</u>	<u>\$ 5,693,272</u>
Business-type activities			
Net Investment in capital assets	\$ 138,725,763	\$ 135,324,120	\$ 3,401,643
Restricted	-	323,875	(323,875)
Unrestricted	13,878,208	10,791,344	3,086,864
Total business-type activities	<u>152,603,971</u>	<u>146,439,339</u>	<u>6,164,632</u>
Total net position	<u><u>\$ 355,598,928</u></u>	<u><u>\$ 343,741,024</u></u>	<u><u>\$ 11,857,904</u></u>

The total net position of the City increased \$11.9 million during the 2018 fiscal year. Of the increase, \$5.7 million came from governmental activities and \$6.2 million from business-type activities. One of the primary reasons for the increases in both the governmental and business-type activities was the amount of infrastructure contributed by developers and governmental activities during 2018, which totaled about \$6.4 million.

The decrease in governmental activities restricted net position was the result of several factors, including a decrease in special assessments restricted for future debt service; capital grants (contributions); decreases in charges for services and other resources restricted for future capital improvements.

Other items affecting net position between 2017 and 2018 include the City having a \$2.0 million note payable to Dakota County for County Road 50 improvements and the sale of Kenrick liquor store to a private party resulting in a gain on sale of \$1.6 million. The Refunding of the City's 2007H and 2009A bonds.

## STATEMENT OF ACTIVITIES

The Statement of Activities tracks the City's yearly revenues and expenses, as well as any other transactions that increase or reduce total net position. These amounts represent the full cost of providing services. The Statement of Activities provides a more comprehensive measure than just the amount of cash that changed hands, as reflected in the fund-based financial statements. This statement includes the cost of supplies used, depreciation of long-lived capital assets, and other accrual-based expenses.

The following table presents the change in the net position of the City for the years ended December 31, 2018 and 2017:

	2018			2017
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 7,203,308	\$ 5,669,001	\$ (1,534,307)	\$ (100,372)
Public safety	14,141,045	2,208,927	(11,932,118)	(12,254,876)
Public works	22,336,416	20,289,222	(2,047,194)	2,537,932
Parks and recreation	6,661,852	2,661,600	(4,000,252)	(4,037,755)
Interest on long-term debt	3,468,814	-	(3,468,814)	(3,268,426)
Business-type activities				
Liquor	14,234,337	15,289,854	1,055,517	952,187
Utility	14,815,914	17,740,034	2,924,120	3,404,105
Total net (expense) revenue	<u>\$ 82,861,686</u>	<u>\$ 63,858,638</u>	(19,003,048)	(12,767,205)
General Revenues				
Property taxes and tax increments			28,641,302	27,317,169
Investment earnings			1,067,303	688,985
Other - gain on disposal of assets			1,601,334	-
Total general revenues			<u>31,309,939</u>	<u>28,006,154</u>
Change in net position			<u>12,306,891</u>	<u>15,238,949</u>
Net position , beginning			343,741,024	328,502,075
Change in Accounting Principles			(448,987)	-
Net position - ending			<u>\$ 355,598,928</u>	<u>\$ 343,741,024</u>

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way the City's governmental and business-type operations are financed. The table clearly illustrates the dependence of the City's governmental operations on general revenues such as property taxes and unrestricted grants, while its business-type activities are financed predominately through program revenues.

The difference in public works is mainly the result of decreased capital contributions, utility connection charges and special assessments of \$4.6 million during 2018.

## LEGISLATIVE UPDATES

Despite the 2018 legislative session ending with a projected budget excess of \$1 billion million for the 2020–2021 biennium the most recent legislative session made some progress on pensions, local options sales taxes, and bonding.

The following is a summary of recent legislation affecting Minnesota cities in 2018/2019 and into the future:

**Local Government Aid (LGA)** – The Legislature completely overhauled the LGA formula for fiscal year 2014 and thereafter, creating a three-tiered formula that includes separate “need factor” calculations for cities with populations under 2,500, between 2,500 and 10,000, or over 10,000. The new formula simplified the LGA calculation, and reduced the volatility of the LGA distribution by limiting the amount it may decline in a given year. Beginning in 2015, any reduction to a city’s calculated LGA distribution will be limited to the lesser of \$10 per capita, or 5 percent of their previous year net tax levy. For cities that gain under the new formula, the increases will be distributed proportionate to their unmet need, as determined by the new “need factor” calculations. The state-wide LGA appropriation was \$516.9 million for fiscal 2016 and 2017, was \$534.4 million for fiscal 2018 and thereafter. LGA was increased to \$560.4 million for fiscal 2020 and increased to \$564.4 for fiscal year 2021.

**Local Option Sales Tax Process** – Cities seeking local sales tax authority in the future will have a different process. Cities must secure legislative authorization before conducting a local referendum (this is a return to the procedure in place before 2011). The use of sales tax revenues is explicitly limited to construction and rehabilitation of capital projects where a clear “regional benefit” can be demonstrated.

**Replacement of Freon Systems** – The 2017 Omnibus Tax Bill created a new option for home rule and statutory cities to finance the replacement of Freon-based refrigerant (R-22) in their hockey arenas by issuing capital notes or certificates of indebtedness with up to a 20-year term without voter approval, but are subject to reverse referendum process. The previous limit was 10-years. Chemical producers will no longer be allowed to produce R-22 after January 1, 2020.

**Pensions** – Governor Walz signed the Omnibus Pension bill which approved an extension to the phased-retirement option which was initially established in 2009 and set to expire in 2019, it was extended until June 30, 2024. The 2018 Omnibus Pension bill did not change the contribution rates for the General Employees Plan. The Bill did change the PERA Public Employees Police and Fire Fund plan as follows:

- Post-retirement COLAs were permanently set at 1.00 percent;
- Employer contribution rates increase from 16.20 percent of covered salaries to 16.95 percent beginning January 1, 2019, and 17.70 percent beginning January 1, 2020;
- Employee contribution rates increase from the current 10.80 percent of covered salaries to 11.30 percent beginning January 1, 2019, and 11.80 percent beginning January 1, 2020;
- To reduce the need for additional contribution increase, the State will contribute an additional \$4.5 million to the plan annually for fiscal years 2019 and 2020, increasing to \$9.0 million annual thereafter through 2048, or until the plan is fully funded; and
- The rate of interest paid on refunds of employee contributions to former public employees was reduced from an annual rate of 4.00 percent to 3.00 percent.

There were also reforms made which impact volunteer firefighter relief association plans as follows:

- Add a requirement that the fire chief annually certify each firefighter's service credit to the relief association and the related municipality effective January 1, 2019.

**Elections** – The Special Session Omnibus bill approved by Governor Walz approved the use of \$6.6 million in elections cybersecurity funding and now allows the Office of the Secretary of State to access \$6.6 million in federal funding made available more than a year ago and is part of the Help America Vote Act. Additionally the bill makes changes to the state presidential nomination primary law and will now limit the distribution of participants' party of choice to the major political parties (prior to this change the Office of the Secretary of State information could have been requested by any registered voter).

**Municipal Liquor Operation Continuation Statute** – The Omnibus Liquor Bill failed to reach the House floor before adjournment of the regular legislative session. This bill included provisions to modify the liquor store continuation statute to exclude long-term pension liability changes when calculating profitability of operations. The bill also included specific liquor license provisions for certain municipalities. This bill is expected to be revisited during the 2020 legislative session.

**Bonding Bill** – Governor Walz signed legislation approving bonding of \$59 million for city water infrastructure funding which was legally challenged after the original passage as part of the 2018 bonding bill.

**Transportation Bill** – The bill approved \$93.5 million in funding for various transportation items including metro mobility, deputy registrar reimbursements, MnLARS replacement and setting up a disaster contingency account.

**Topics not making it to the Governor** – Various bills were introduced during the most recent legislative session however they never made it to the Governor's desk for his review. These bills included items such as the public officials compensation cap, cities setting their own employment standards, paid leave for family and medical reasons, a definition of sexual harassment, and any changes which would significantly increase revenues for transportation funding.

## ACCOUNTING AND AUDITING UPDATES

**GASB Statement No. 83, “Certain Asset Retirement Obligations”** – the objective of this Statement is to provide financial statement users with information about asset retirement obligation not previously address in GASB standards, by establishing uniform accounting and financial reporting requirements for these obligations. An example of these assets would be decommissioning a nuclear power plant, wind turbines, sewage treatment facilities, or an x-ray machine. This Statement is effective for periods beginning after June 15, 2018.

**GASB Statement No. 84, “Fiduciary Activities”** – this Statement establishes criteria for identifying fiduciary activities of all state and local governments. This Statement is effective for periods beginning after December 15, 2018.

**GASB Statement No. 87 “Leases”** – the primary objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. It will require recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources based on the payment provision of the contract. It also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement is effective for periods beginning after December 15, 2019.

**GASB Statement No. 90 “Majority Equity Interests”** – the primary objectives of this Statement is to improve the consistency and comparability of reporting of a government’s majority equity interest in a legally separate organization and to improve the relevance of financial information for certain component units. This Statement is effective for periods beginning after December 15, 2018.

**GASB Statement No 91 “Conduit Debt”** – the primary objectives of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement is effective for periods beginning after December 15, 2020.