

**INVER GROVE HEIGHTS CITY COUNCIL STUDY SESSION  
MONDAY, MAY 6, 2013 – 8150 BARBARA AVENUE**

**1. CALL TO ORDER** The City Council of Inver Grove Heights met in study session on Monday, May 6, 2013, in the City Council Chambers. Mayor Tourville called the meeting to order at 6:00 p.m. Present were Council members Bartholomew, Madden, Mueller and Piekarski Krech; City Administrator Lynch, City Attorney Kuntz, Public Works Director Thureen, Parks and Recreation Director Carlson, Finance Director Smith, Police Chief Stanger, and Deputy Clerk Kennedy.

**2. COUNCIL PHOTOS**

**3. CAFR**

Steve Wischmann, CPA from Kern, DeWenter, Viere, Ltd., presented draft copies of the Comprehensive Annual Financial Report (CAFR), the Auditor's Communication Letter and Reports on Compliance with Government Auditing Standards and Legal Compliance for the year ending December 31, 2012. He explained an unqualified (clean) opinion was issued on the City's financial statements, the highest form of assurance that can be issued. The auditors did note a significant deficiency while conducting the audit, a lack of segregation of accounting duties. He stated under the audit standards the auditors need to cite specific examples based on their review and testing of the City's internal controls. He noted this issue has been cited in past years and is likely to continue to be cited in the future. He explained staff and the City Council are aware of the condition and have taken certain steps to account for the lack of segregation, but the costs associated with hiring additional employees to enhance the segregation of duties could exceed the benefits derived. He noted the City continues to analyze personnel responsibilities to provide enhanced internal controls. A material weakness was also identified as the result of a prior period adjustment that was required to correct the 2011 financial statements. The adjustment was required in the City's Local Improvement Construction Fund and Parks Acquisition & Development Fund to reclassify park dedication fees paid with special assessments and credited to the incorrect fund. It was noted that during 2012 the City revised its processes regarding property taxes and special assessments. Duties have been segregated so that one person is responsible for receipt allocation during the year and another person is responsible for reconciliation at year end.

Councilmember Bartholomew stated the graph on p. 22 was labeled incorrectly.

Mr. Wischmann provided an overview of the financial analysis. He stated over the last five (5) years the City had a very stable operating environment. General Fund revenues were 6.2% over budgeted amounts and total General Fund expenditures increased less than 1% from 2011 to 2012. The public safety sector had the highest expenditures within the General Fund, accounting for 49% of total expenditures. In 2012 Public Safety expenditures increased by 4.5%. The increase was largely a product of cost of living adjustments and increases in technology service expenditure allocations and communications costs, primarily within the police department. Overall, General Fund expenditures were \$549,322 or 3.4% under budget. The General Fund unassigned balance has consistently increased over the last five (5) years indicating the City has been able to generate revenues that cover expenditures. During 2011 the City updated its fund balance policy to strive to maintain a minimum unassigned fund balance not less than 40% of the following year's budgeted property tax levy and state aid revenues. As of December 31, 2012 the City's unassigned fund balance exceeded the minimum by \$1,854,472. He explained as the tax capacity decreases, the tax rate will increase even as the levy remains consistent. He stated overall the net position of the City continued to be very strong and the trend over the last five (5) years was positive.

Mayor Tourville questioned how the Public Works budget was affected by the prior period adjustment.

Ms. Smith explained that Public Works expenditures increased due to the one-time adjustment. She referred to the explanation provided on page 22.

Councilmember Piekarski Krech questioned if the money came from the Public Works budget.

Ms. Smith stated the money came from the TIF fund.

Mr. Lynch explained the Public Works budget was over in capital, not in operational costs.

Dian Piekarski, 7609 Babcock Trail, questioned if any enterprise funds were included in the General Fund expenditures outlined on page 12.

Ms. Smith responded in the negative.

Ms. Piekarski asked for further clarification on the interest costs related to the golf course revenue bonds.

Mr. Lynch stated the golf course revenues could not cover all of the operating and debt service costs. The interest costs related to the bonds magnified the operating losses. Paying off the revenue bonds through the sale of land to the EDA allowed the golf course to retire the debt faster.

Ms. Piekarski questioned why it appeared as though Inver Grove Heights was paying so much more for Public Safety compared to other cities.

Mr. Lynch stated the DCC was formed in 2007 and the City's fees increased based on the average number CAD events over a three (3) year period. He noted many outstate cities do not offer the same services and as a result do not have the same costs.

Councilmember Piekarski Krech questioned if there was a way to compare Inver Grove Heights to only other metro cities because including outstate cities skews the data considerably.

Mayor Tourville noted it may be tough to get a fair comparison because not all cities report their funds and finances in the same way.

Ms. Piekarski opined the City was spending more on recreation than what was reflected in the report.

Ms. Smith stated page 27 presented a more accurate depiction because it included information for each of the funds (parks, recreation, community center, cvb, and the golf course).

#### **4. 2014 BUDGET**

Mr. Lynch outlined the proposed budget schedule and noted preliminary budgets and tax levies were required to be adopted by September 15<sup>th</sup>. Final budgets and tax levies are scheduled to be adopted at the December 9<sup>th</sup> regular Council meeting. He reviewed the 2013 budget challenges that were encountered including the fourth consecutive year of declines in market value and tax capacity. He explained General Fund cuts were based on a percentage of expenditures from the previous year. 2014 budget challenges were identified and included reduced reliance on the Host Community Fund and other funds, increased debt service and reduced reliance on the Closed Bond Fund, funding of the Pavement Management Program, anticipated increase in personnel costs after all contracts are settled, and allocations for Risk Management, Central Equipment and City Facilities. The 2014 CIP indicated a levy increase based on the assumption that there would be no change in market values or tax capacity, a 2% increase in revenues, a 3% increase in expenditures, no reliance on the Host Community Fund or other funds, continued funding of the Pavement Management Program, debt service reliance on the Closed Bond Fund, and the decertification of TIF district 2-1.

Ms. Smith explained the change in market value and tax capacity for taxes payable in 2014 by property classification. She noted the information did not include the impact of the decertification of TIF 2-1. She stated a 2.9% increase in market value and a 2.8% increase in tax capacity were projected.

Mayor Tourville stated the increases in market value and tax capacity were good news. He requested a TIF update be provided with the 2014 budget information.

Ms. Smith referenced Exhibit E and provided a comparison of the market value and tax capacity from 2013 to 2014. She also discussed how the City's 2013 tax rates compared to those of other Dakota County cities.

Councilmember Bartholomew questioned why staff felt the allocations for Risk Management, Central Equipment and City Facilities would be a challenge for the 2014 budget.

Ms. Smith explained in past years the allocations have been kept stable despite changes in several departments and as a result the budgeted allocations were not truly reflective of actual costs.

Mr. Lynch stated the intent is to increase allocations as necessary to be commensurate with expenses.

Mayor Tourville questioned if the proposed schedule would allow enough time for meaningful discussion.

Mr. Lynch stated the process had already started internally and department heads and supervisors would begin presenting their proposed budgets to the budget committee in late June. He noted additional meetings could be scheduled based on Council direction.

Councilmember Piekarski Krech asked that justification for any proposed cuts be provided with the budget.

Councilmember Madden clarified the intent would be to reduce the reliance on the Host Community Fund.

Mr. Lynch responded in the affirmative and stated the intent would also be to reduce the debt service. He stated the General Fund had a surplus of approximately \$820,000 that could be used if needed or if so directed by the Council.

Councilmember Piekarski Krech questioned if the surplus needed to go into reserves.

Mr. Lynch explained the City was over the 40% reserve policy by approximately \$1.8 million. He stated the surplus could be left in the General Fund or be utilized to reduce taxes.

Ms. Smith stated if the tax rate was maintained the City would have more money to work with. If the Council chose to keep the amount of tax dollars collected the same, the tax rate would decrease.

Mr. Lynch reviewed that staff would begin preparing budgets, without use of surplus dollars, to decrease reliance on the Host Community Fund, eliminate the use of internal funds, and fund the Pavement Management Program directly from the Host Community Fund, and decrease debt service.

Mary T’Kach opined the budget process should be reflective of the City’s goals and values and less about the bottom line. She stated decisions should be based on what the community wants and values in terms of services.

Mayor Tourville stated more information related to the budget would be forthcoming in the next 30-40 days so citizens could review it and provide input.

Councilmember Bartholomew encouraged residents to communicate and start a dialogue with the Council.

Ms. T’Kach opined the Council was not hearing from a representative population. She suggested that the Council consider long-range budget planning to establish direction for the community over the next five to ten years.

Mr. Lynch stated Council recently directed staff to proceed with the establishment of values and creation of a mission or vision for the City.

## **5. DECISION RESOURCES BUSINESS SURVEY**

Mr. Bill Morris from Decision Resources, Ltd., stated a local business study involving 253 businesses was conducted between November 29, 2012 and January 10, 2013. The participants were randomly selected and average length of the phone call was 26 minutes. He noted the non-contact rate was small. He reviewed the findings of the study and detailed the responses that were received for specific questions. Overall, 90% of the participants rated the city business atmosphere as good or excellent, 9% as fair, and 1% as poor. The results demonstrated that participants identified client base, location, and close distance from home as the top things they like about operating in the City. 34% of respondents had official contact with the City in the past year and 89% of those that had contact within the past year indicated they were satisfied with the service they received. He explained based on the findings of the study it can be concluded that the City has a solid relationship with businesses, a very low level of business tax hostility, and a high rating in terms of attitudes and responsiveness.

Mayor Tourville noted the complete presentation would be available on the City's website.

Councilmember Piekarski Krech questioned if the type of business surveyed factored into the results.

Mr. Morris explained the type of business was not a predictor in terms of the responses received. He noted those who had contact with the City in the last year tended to be more positive.

Councilmember Mueller questioned if the specific businesses that were surveyed and their size was known.

Mr. Morris stated the survey was anonymous but they were aware of the size of each business surveyed.

Dian Piekarski questioned what the selection criteria were for participants.

Mr. Morris stated the businesses were randomly selected and the results had +/- 5% error.

Councilmember Bartholomew stated there seemed to be a lot unusual findings and the results seemed a bit unrealistic in that they were off the charts in most categories.

Councilmember Madden asked if proper market research techniques were followed and if Mr. Morris was confident in the accuracy of the results.

Mr. Morris responded in the affirmative.

Mayor Tourville noted the complete presentation would be available on the City's website.

## **6. INVER WOOD GOLF COURSE DISCUSSION**

Mr. Carlson stated on February 11<sup>th</sup> the Council was provided with information on Inver Wood Golf Course history, financing, and operations. Included in the discussion was the fact that the course had an audited negative cash balance at the end of 2011 in the amount of \$3,700,000. The main issues to be discussed to obtain direction from Council included, how to address the negative cash balance, how to handle any future positive operating results and funding for future capital improvements and equipment.

Mr. Carlson explained the practice in past Comprehensive Annual Financial Reports has been to cover the deficit of the Golf Course through a one-day transfer of available city funds in order to avoid the reporting of a large negative cash balance on the city's financial statements. He questioned if the Council was comfortable following a similar practice until a permanent solution is found.

Mr. Lynch noted the other short term solution is to report a negative cash balance.

Mayor Tourville questioned what staff would recommend according to best practices from an accounting perspective.

Mr. Lynch explained one concern is that the negative cash balance would affect the City's bond rating.

Ms. Smith stated from an accounting perspective the preference would be to continue with the current practice of a one-day interfund loan transfer.

Councilmember Bartholomew acknowledged that was a common and accepted business practice.

Mr. Carlson stated it was anticipated that in the next 2-5 years the course may experience a small positive net operating income annually of 0-\$50,000 depending on the length of the season and the weather. It was recommended that any positive operating results be used to fund future capital needs at Inver Wood. He noted any positive operating income would not be an effective means of reducing the negative cash balance.

Mayor Tourville questioned if the negative cash balance included the purchase of the land and construction costs.

Mr. Carlson stated the total negative cash balance included everything over the life of the course, except the purchase of the land.

Councilmember Madden stated his concern is that the course will never be able to make enough money to get out of debt.

Councilmember Bartholomew questioned if it would be possible to transfer money from other funds to erase the debt and start from a zero cash balance.

Mr. Lynch stated that could be one of the options presented to the Council. He explained staff would prepare several options for Council consideration. He reiterated that the revenue generated by the golf course could not be expected to cover the existing debt, operating expenses, and capital improvements.

Councilmember Piekarski Krech clarified the negative cash balance was specific to the golf course fund.

Mr. Carlson stated that was correct. The negative cash balance was not money that was owed to another fund. The deficit is specific to the golf course enterprise fund.

Councilmember Mueller opined there were other city-owned courses that seem to be making more money than Inver Wood.

Councilmember Piekarski Krech stated many of the other city-owned courses are able to offer amenities that Inver Wood does not have such as full service dining and liquor. She opined that many of the courses do not make money on golf. Their profits are derived from other sources because their facility is a destination for people to have dinner, drinks, or attend events such as weddings.

Mayor Tourville noted the decision was made when Inver Wood was built to not equip the club house with the amenities necessary to host large-scale events or provide a full-service dining option.

Councilmember Mueller questioned if it was time to outsource management of the course. He also questioned what changes had been made to try to generate more profit.

Mr. Carlson stated in response to recommendations from the operational audit that was performed, the fees at Inver Wood were discounted over a two year period. It was determined that was not a viable method to increase the profitability of the course and Council subsequently made the decision to discontinue that practice. He noted the rates were increased for the upcoming season.

Dian Piekarski, 7609 Babcock Trail, questioned why the negative cash balance was never discussed at the EDA meetings when the purchase of golf course property was being considered. She asked if any other enterprise funds required interfund loan transfers at the end of the year.

Mayor Tourville stated the property purchase by the EDA was to retire the debt service, not to eliminate the cash deficit.

Ms. Piekarski opined it was disingenuous to do the one-day transfer to make the cash balance zero.

Mr. Lynch explained interfund loan transfers did not occur with any other enterprise fund. He stated the extent of the negative cash balance was not fully known at the time the EDA was discussing the land purchase to retire the debt service. The interfund loan transfer was a common practice that had been followed for many years, likely since the course opened.

Mayor Tourville questioned if the negative cash balance could legally be written off.

Mr. Lynch stated staff would look into the options available.

Councilmember Madden stated they cannot change what was done in the past and can only work to come up with the best possible solution for the City going forward.

Mayor Tourville stated it was not likely that the course would be able to pay off the negative cash balance with its own profits. He opined the best option may be to find a way to eliminate the negative balance as soon as possible to start from zero and move forward.

Councilmember Piekarski Krech stated the City may have to put money into improvements to make Inver Wood viable.

Councilmember Mueller reiterated they need to find a way to increase the revenue being generated.

Councilmember Bartholomew stated the core issue is that the course cannot cover operational expenses or future capital improvements. He suggested that if the City was going to consider capital improvements to enhance the viability of the course, it would also be an opportunity to consider a RFP for private management.

Mary T’Kach, encourage the Council to think of the golf course as a community asset. She stated the City may have to put money into the course to enhance the amenity for the community.

Councilmember Bartholomew recognized the course may be deficient in terms of product services. He noted he was not in favor of losing money on anything and opined the ultimate decision may be that the golf course is simply not an enterprise the City should manage.

Councilmember Madden stated the most important issue at the moment was to figure out how to decrease the deficit. He noted he was not in favor of taking on more debt.

## **7. ADJOURN**

**The meeting was adjourned at 9:25 p.m.**