

MINUTES OF THE FINANCE COMMITTEE
VILLAGE OF SHOREWOOD HILLS
Monday, June 20, 2016

(to be scheduled for review at the next meeting of the Finance Committee)

1. The meeting was called to order at 5:30 pm.
2. Roll call: Committee members present were Chair/Village Trustee Fred Wade, Village Treasurer Sean Cote, Gard Strother, and Carl Gulbrandsen. Village President Mark Sundquist, Dave Ahmann, and Karl Wellensiek were absent. Others present were Village Administrator Karl Frantz, Village Clerk Cokie Albrecht, and Vicki Hellenbrand of Baker Tilly.
3. Meeting Notice: Karl Frantz confirmed compliance with the open meetings law.
4. Minutes: Motion to approve the draft minutes of the Committee's meeting on February 17, 2016 by G. Strother, and second by Sean Cote. Motion passed (4-0).
5. 2016 YTD Budget Report: Karl Frantz reported that overall the 2016 General Fund Budget is looking good through May. Budgeted expenses are on track, and it looks like the Village will have about \$400,000 in unbudgeted revenue from fees and building permits. However, going forward the Village will have to deal with levy limits, a Public Service Commission requirement that the Village pay an annual Public Fire Protection fee of approximately \$50,000, the lack of any additional proceeds from the sale of Village Fire and EMS equipment that may be used in the future, and the fact that the ability of the Village to borrow is constrained as a matter of policy to about \$750,000, and that lack of flexibility could persist for a decade.
6. Review of 2015 Audit, Internal Controls and Financial Statements. Vicki Hellenbrand handed out a "Report to the Village Board," dated June 20, 2016. She then proceeded to give the Committee a report on Baker Tilly's audit of the Village financials, before proceeding to a review of the report on the financials that she handed out:

Audit Report

* Ms. Hellenbrand stated that the audit "went well," and Village finances are "in really good shape." She expressed appreciation for the time, effort and help of the Village staff during the audit.

* One major change resulted from classification of the new lease with the Blackhawk Country Club as an operating lease rather than a capital lease as in the past. This reclassification led to a loss – reflected in the Village Statement of Activities – of \$1,041,628 "for financial reporting purposes only." It does not "represent an economic loss to the Village."

* Another major change shows a net Pension Asset of \$244,010. This figure reflects the fact that the Wisconsin Retirement System is fully funded, and as a result, the Village is

required to disclose an asset that represents its share of the excess over the estimated amount that will be necessary to pay pension benefits. The pension asset does not affect the current financial resources that are available to the Village

Financial Statement Report

* Baker Tilly has issued a clean opinion that the 2015 financial statements of the Village “present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the Village . . . as of December 31, 2015,” and certain related information, “in accordance with accounting principles generally accepted in the United States of America.”

Ms. Hellenbrand proceeded to review her 9 page report:

* The Unassigned Fund Balance of \$779,283 (pp. 2-3). Ms. Hellenbrand said this is “a good number to have.” She added that it is about 27.66% of expenditures without considering transfers to other funds, and about 22% of expenditures with such transfers (which is the way the Financial Statements reflect). Ms. Hellenbrand added that most communities fall within a range of 20 to 25%.

* The Village had net General Obligation Debt of \$16,955,462 at year end (p. 3), including about \$6 million related to our TIF districts. Ms. Hellenbrand stated that the total was 62% of the statutory limit imposed by the State, but Karl Frantz noted that the Village is close to the internal debt limit of the Village, and will be for the next ten to twelve years, so that there is not much room to borrow additional money.

* The ratio of debt service to non-capital expenditures was 29.07%, which is above the 20% metric that bond rating agencies recommend (p. 4).

* 2015 General Fund Revenues of \$3,445,643 (pp. 5-6). Ms. Hellenbrand noted that revenues have remained “fairly stable” from 2011 through 2015, with about 73% of the total coming from taxes. She added that, the one exception, was a one-time sale of fire and EMS equipment in 2014 for \$541,424.

* 2015 General Fund Expenditures of \$2,817,647 (pp. 7-8). Ms. Hellenbrand said that expenditures remained “pretty stable” as well.

Report on Internal Controls

Ms. Hellenbrand noted that, as in the past, the Baker Tilly “Communication to Those Charged With Governance and Management” notes a number of internal control issues that are related to a lack of segregation of functions. She added that these are problems that are common to small municipalities such as the Village, because they have a small staff, and there is no practical solution for dealing with those issues apart from the addition of more staff. She urged that the Village Board, the Finance Committee, and senior Village management be mindful of the concerns in overseeing Village operations.

7. Report and Recommendation on Village Water Rate Case

Ms. Hellenbrand also reported on the status of the Village Water Rate Case and recommended that the Village accept the rate that the Public Service Commission is willing to approve, while continuing to ask for relief in the amount of the Public Fire Protection fee (PFP) that the Village will be required to pay.

* The FCP is an annual fee that the Village General Fund pays to the water utility, on the premise that the ability to fight fires requires larger pipes than water service, and therefore, the cost of fire protection should be borne by property tax payers rather than customers of the water utility.

* The PSC calculates the PFP fee on the basis of a formula, but the recent replacement of many 50-100 year old water pipes resulted in an initial PSC calculation that the fee should double from approximately \$100,000 per year to \$200,000 per year.

* Ms. Hellenbrand opposed the proposed increase in the PFP fee as unreasonably high, in part because the Village did no more than replace existing pipes, and in part because the cost would be difficult for the Village General Fund to absorb because of State imposed levy limits.

* Ms. Hellenbrand reported that the PSC has re-calculated the increase in the PFP fee, and reduced the increase to about \$50,000 per year, which she still views as unreasonably high.

* If the amount of the PFP fee increase cannot be further reduced, the options for the Village will include: (1) adding the \$50,000 amount to the levy; (2) allocating more of the costs that are paid by the General Fund to the Water Utility, which would result in higher rates for the utility customers; (3) a reduction in General Fund expenditures to offset all or part of the fee increase; (4) holding a referendum that would permit the Village to exceed the State's levy limit; and (5) selling the water utility to the City of Madison, which would create a hole in the General Fund Budget, because the Water Utility makes payments to the General Fund to compensate for the time that the Village staff spends on administration of the utility.

* Ms. Hellenbrand added that the Village Water Utility is in desperate need of the additional revenue that the new rates would produce, and that, it would still take some months for the pending rates to be approved by the PSC.

* Under these circumstances, Ms. Hellenbrand recommended that the Village: (1) agree to the rates that the PSC has proposed; (2) continue efforts to secure PSC approval of a lower increase in the PFP fee; and (3) consider options for payment of the fee at a future time.

Motion by Carl Gulbrandsen and second by Sean Cote that the Committee recommend Village acceptance of the pending water rates to the Board, while continuing to pursue a

further reduction in the amount of the PFP fee, in accord with the recommendation that Vicki Hellenbrand made to the Committee. Motion passed (4-0).

8. Update on Village Capital Plan and Borrowing Capacity

Karl Franz gave the Committee a status report on the borrowing capacity of the Village and its Capital Plan:

* He noted that the Village has about \$750,000 in additional borrowing capacity, based on the internal limits that the Village has adopted as a matter of policy. This policy provides that the Village should pay no more than 20% of its operational expenses for debt service.

* Karl stated that the Capital Fund will receive infusions over time as \$460,000 that has been advanced to the Water Utility is repaid, and as the Blackhawk Country Club repays the \$141,000 that the Village advanced last year for the re-paving of the Club's parking lot. He added that TIF No. 4 will repay \$142,000 that the General Fund has advanced to it.

* He added that we were able to spend \$175,000 for road re-surfacing this year, in part with grant money and in part with unused TIF money.

* The proposal for a Village Cold Storage facility will cost about \$530,000. In addition, the old DPW building has no air handling or air exchange capability, and that is something the Village may need to address.

9. Possible Revaluation of Village Properties

Karl reported that the Board of Review has recommended that the Village undertake a complete revaluation of the Village to eliminate inequities that have arisen in assessments since the last revaluation in 2006. Village assessments are now at 90.5% of equalized value, and the Village would be required by state law to conduct a revaluation if the percentage falls below 90% for three years in a row.

Karl mentioned a number of options that might be considered for conducting a revaluation.

10. Next Meeting Dates:

The Committee will be polled to see if we can schedule the next meeting in mid-July.

11. The meeting was adjourned at 7:31 pm.