AGENDA FOR THE VILLAGE OF SHOREWOOD HILLS
Finance Committee

Date and Time: Wednesday, June 24, 2020 – 5:00 P.M.
Location: Virtual Meeting via Zoom

To listen to the meeting live, dial (312) 626-6799 US (Chicago).
Meeting ID: 842 6669 4748
Password: 101236

1. Call to order
2. Roll call
3. Note compliance with open meetings law
4. Review/approve previous Finance meeting minutes
5. Review of 2020 revised general fund budget projections and possible recommendations
6. Review Village fund balance policy and possible recommendations on revisions
7. Set next meeting dates
8. Adjourn

Please Note:

- *Written comments on the agenda can be sent to info@shorewood-hills.org before 8:00 am on June 24, 2020.*
- *To register to speak on an agenda item, send an email to info@shorewood-hills.org before 8:00 am on June 24, 2020 detailing which item is of interest. Your comments may be limited to 3 minutes.*

PLEASE TAKE NOTICE, that any person who has a qualifying disability as defined by the Americans with Disability Act that requires the meeting or materials at the meeting to be in an accessible location or format, should contact the Municipal Clerk, 810 Shorewood Boulevard, or phone 267-2680, during regular business hours at least 48 hours before the meeting so that reasonable arrangements can be made to accommodate each request.

It is possible that members of, and possibly a quorum of members of other governmental bodies of the Village of Shorewood Hills who are not members of the above committee, commission or board may be in attendance at the above stated meeting to gather information. However, no formal action will be taken by any governmental body at the above stated meeting, other than the Board, committee or commission identified in the caption of this notice.

Village of Shorewood Hills
Finance Committee
Draft Meeting Minutes
Wednesday, May 13, 2020

1. Call to Order

Finance Committee Chairperson John Imes called the meeting to order at 5:32 pm.

2. Roll Call Committee

Members present via Zoom were Mr. Imes, Cokie Albrecht, Dave Ahmann, Carl Gulbrandsen, Gard Strother, Sean Cote and Karl Wellensiek. Also in attendance were Village Administrator Karl Frantz, Services Manager/Deputy Clerk David Sykes and John Rader and Leah Wipperfurth of Baker Tilly.

3. Note Compliance with open meeting laws

Mr. Frantz confirmed the meeting had been properly posted and noticed.

4. Review/approve previous Finance meeting minutes

Mr. Wellensiek moved and Mr. Gulbrandsen seconded a motion to approve the October 16, 2019 meeting minutes as presented.
Vote: Approved 7-0.

5. Presentation of 2019 Village Financial Statements and subsequent review and recommendations

The Village's audit team of John Rader and Leah Wipperfurth of Baker Tilly presented the 2019 audit of the Village's Financial Statements. Mr. Rader is new to the audit team this year. His focus for the presentation was the Reporting and Insights document that is a different format than the former Letter to Management provided in previous audits. They are suggesting some changes to the audit process plan that will make things easier and more comprehensive.
The final financial statements were issued on May 1, which is about 2 months earlier than last year.
The focus of their field work was on processes and internal controls. They try to identify areas that can be improved upon but some are a function of having a small staff.
The recommendations they suggest include: a process to review, record and approve project retainage for projects that cross calendar years; and conducting bank reconciliations on a monthly basis.
Because the auditors prepare some of our journal entries, a comment about misstatements is required in the financial statements. But, Mr. Rader explained that is typical of 95% of the municipalities they audit.
There are some new GASB rules related to leases, interest on construction projects and third-party debt, that may affect the Village in 2020/2021.
He reviewed the fund balance explaining the overall balance remained stable. The unassigned portion increased due mainly to the non-spendable portion being paid to TIF 5. Revenues and expenses were both over budget, due to insurance/permit fees and police/DPW wages respectively, but in total they broke even.

The unassigned fund balance as a percentage of the budget is 24.5%, up from last year. The trend is stable and within the Village's policy of 15-25%. GFOA recommends a fund balance of at least 2 month's cash (16.7%). The Village is at 3 month's cash. The median percentage of fund balance to budget has trending up towards 39.4% for communities that Baker Tilly audits. Communities are revising their policies to adjust for disasters, law suits, offsetting future borrowing and for other reasons. Committee members will discuss the policy further to determine if a change is needed.
The Village's general obligation debt is trending down while capacity for borrowing is trending up. The Village is at ~46% of its debt capacity (43% if utilities are excluded). Much of the Village's debt is in the TIF districts that have an adequate funding source. The main point is that the debt amount has been consistent and manageable over the years.
A comparison of principle and interest to all other expenses is a bit higher than other communities audited by Baker Tilly. But, that is mainly due to the Village's active TIF districts and the debt is considered manageable.
Ms. Wipperfurth reviewed the Village utilities. The water utility's revenue to expense gap has been increasing since 2018. The 2019 rate increase helped the bottom line revenues but that was offset some by five months of Public Fire Protection charged to the utility. Net operating income increased from $188K to $293K from 2018 to 2019. The sewer utility has not changed much. There was a slight increase in usage charged and a slight operational expense increase. The stormwater utility had a rate increase implemented in September 2019 with bumped up revenues a bit. Cost have remained mostly the same with a small increase due to University Avenue engineering expenses. The water and sewer utilities have paid a good amount of their advances back to the capital fund in 2019.

6. Update on 2020 budget and COVID-19 impacts/responses with any recommendations including delay of due date on property tax bill payments allowed by Dane County but requiring local approval

Mr. Frantz explained the overall budget looks OK but revenues are probably not going to reach the budgeted numbers. Reductions in parking fines, interest on investments, swimming pool rent/administrative overhead could lead to ~$150K less in revenue this year. Department heads have been told to keep expenses down. There have been some additional expenses related to COVID-19 (disinfecting buildings, vehicles, equipment).
Dane County passed a resolution to allow municipalities to waive interest and penalties for late tax payments after the July 31 deadline. Payments can be delayed until October 1. Most other municipalities in Dane County are allowing the delayed payments.
Dane County will settle the July 31 payments as usual in August, then any late payments will be settled on September 20. Mr. Frantz indicated the Village tends to get half of its tax revenue in January and the other half in August. Our cash flow can handle the delayed tax settlement. Debt payments are not due until November 1.
Mr. Cote moved and Ms. Albrecht seconded a motion recommending the Board approve a resolution allowing for a delay of property tax payments without interest or penalties. Vote: Approved 7-0.

7. Set next meeting date

The Committee agreed to plan on meeting in June on its regular date/time, Wednesday, June 10, 2020 at 5:30 pm to keep the Committee apprised on the Village budget in light of the COVID-19 pressures.

7. The meeting was **adjourned** at 7:12 pm.

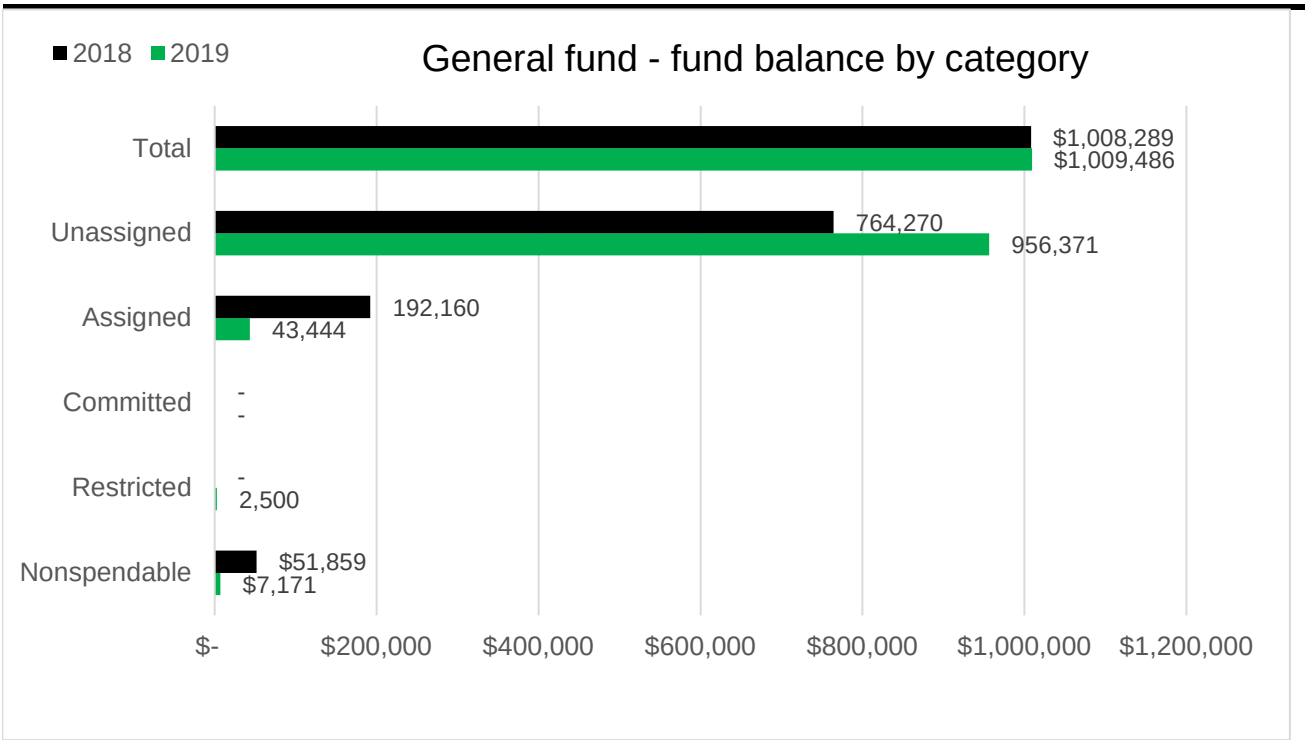
Respectfully submitted,

David Sykes
Administrative Services Manager/Deputy Clerk

DRAFT

Village of Shorewood Hills

General fund results



Summarized income statement

	Actual	Final budget	Variance
Revenues and other financing sources	$ 4,081,291	$ 3,899,719	$ 181,572
Expenditures and other financing uses	4,080,094	3,899,719	(180,375)
Net change in fund balance	$ 1,197	$ -	$ 1,197

Fund balance category definitions

Nonspendable - amounts cannot be spent either because they are not in spendable form or because legal or contractual requirements require them to be maintained in tact.

Restricted - amounts that can be spent only for the specific purposes stipulated by an external source.

Committed - amounts constrained for specific purposes that are internally imposed through formal action of the governing body.

Assigned - spendable amounts that are intended to be used for specific purposes that are not considered restricted or committed.

Unassigned - residual amounts that have not been classified within other categories above.

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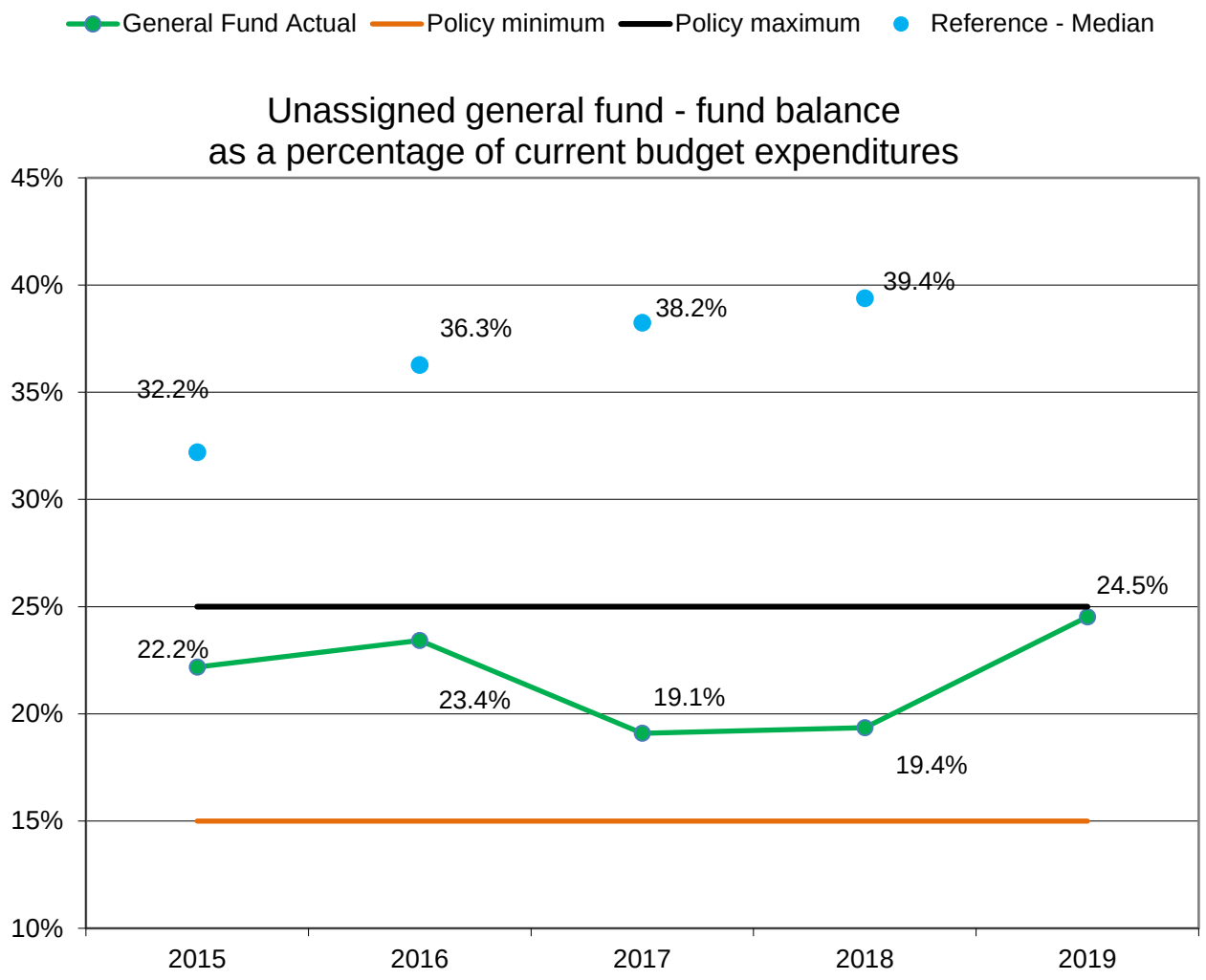
Source: current and prior year financial statement information and other benchmark information as noted.

Village of Shorewood Hills
General fund - fund balance trends

Fund balance policy:

15-25% of general fund current year budgeted expenditures



Other reference values

GFOA recommends a minimum of no less than 2 months (16.7%) of general fund expenditures.

Median reference value generated from 2015 - 2018 Baker Tilly municipal client data for population ranges from 17,500 to 30,000.

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Source: current and prior year financial statement information and other benchmark information as noted.

Fund Balance Policy

I. Objective:

A formal policy governing the purpose of an unassigned general fund balance is an effective financial management tool. A formally adopted policy helps eliminate ambiguity regarding the proper amount to maintain in the unassigned fund balance.

II. Definition:

The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those accounted for in another fund. The unassigned fund balance is the portion of the General Fund not assigned to a defined purpose.

III. Policy:

To preserve working capital and to adequately prepare for unforeseen events which require ready access to funds, it is the policy of the Village to maintain as the unassigned fund balance a sum equal to 15% to 25% of the General Fund annual budget.

Any appropriation from the unassigned fund balance requires a two-thirds affirmative vote of the Board.

IV. Procedure:

The Village Administrator and the Finance Committee shall annually review the levels of the unassigned fund balance to ensure that appropriate levels are maintained.

V. Formula:

The formula for computing the unassigned fund balance percentage is as follows:

$$\frac{\text{Current Year Unassigned Fund Balance}}{\text{Current Year General Fund Budget}} = \text{\% of Fund Balance}$$

As you know our fund balance policy is to keep unassigned gf between 15-25% of exp. For the first time our auditors suggested we are low comparatively and their comparable averages are 32-39%. What are your thoughts? S &P seems okay with where we have been and never has raised any issues, but maybe they are looking more at combined balances? Finance is going to discuss on June 10. We were at 24.99% at 2019 year end and normally we would have been very pleased, but now we wonder if we should be higher. We have never had cash flow problems and have weathered disasters, balanced budgets using FB and always keep ourselves in the 19-27% range. I have the GFOA policy from about 2011 and we are well within its guidelines. What are you seeing?
Karl

Hi Karl,
There's a lot packed into this question and the comments form your auditors. My thoughts:

1. The village earns the highest score that S&P allocates to the fund balance component of the assigned AAA rating. Increasing fund balance would not impact the rating, even if other rating factors push the village out of the AAA category.
2. Although counter-intuitive, lower rated municipalities (A+, AA-, AA range) tend to have higher fund balances than AAA rated municipalities which may be impacting the auditor's frame of reference since very few municipalities are rated AAA.
3. For comparison to a near-by AAA rated municipality, I'm the Financial Advisor to the Village of Maple Bluff, and the village earned an upgrade to AAA last December. Maple Bluff's fund balance is 24%.

As you referenced, Shorewood Hills has demonstrated a long history of effective budgeting and strong management through varying economic cycles and unforeseen events. I don't have concerns with the existing fund balance policy.

I'm available to discuss if you'd like. I can be reached on my mobile at 414-588-6351.
Brad

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BEST PRACTICE

Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009) (BUDGET and CAAFR)

Background. Accountants employ the term *fund balance* to describe the net assets of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net assets of governmental funds calculated on a government's budgetary basis.[1] In both cases, fund balance is intended to serve as a measure of the financial resources available in a governmental fund.

Accountants distinguish up to five separate categories of fund balance, based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts can be spent: *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.[2] The total of the last three categories, which include only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself, is termed *unrestricted fund balance*.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning.

In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance (i.e., the total of the amounts reported as committed, assigned, and unassigned fund balance) in the general fund.

Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unrestricted fund balance for state and local governments.

Those interested primarily in a government's creditworthiness or economic condition (e.g., rating agencies) are likely to favor increased levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

Recommendation. The Government Finance Officers Association (GFOA) recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund.[3] Such a guideline should be set by the appropriate policy body and should provide both a temporal framework and

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[1] For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.

[2] These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which must be implemented for financial statements for periods ended June 30, 2011 and later.

[3] Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.

specific plans for increasing or decreasing the level of unrestricted fund balance, if it is inconsistent with that policy. [4]

The adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.[5] The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.[6] Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time.

In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
- Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
- The potential drain upon general fund resources from other funds as well as the availability of resources in other funds (i.e., deficits in other funds may require that a higher level of unrestricted fund balance be maintained in the general fund, just as, the availability of resources in other funds may reduce the amount of unrestricted fund balance needed in the general fund);[7]
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained); and
- Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose).

Furthermore, governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance rather than on unrestricted fund balance.

Naturally, any policy addressing desirable levels of unrestricted fund balance in the general fund should be in conformity with all applicable legal and regulatory constraints. In this case in particular, it is essential that differences between GAAP fund balance and budgetary fund balance be fully appreciated by all interested parties.

Approved by the GFOA's Executive Board, October, 2009.

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[4] See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).

[5] In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.

[6] In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues or expenditures, that decision should be followed consistently from period to period.

[7] However, except as discussed in footnote 4, not to a level below the recommended minimum.