

**MINUTES OF BOARD WORKSHOP  
OF THE  
COMFORT LAKE – FOREST LAKE WATERSHED DISTRICT**

**Thursday August 23, 2016**

**1. Call to Order**

The meeting was called to order on August 23, 2016 at 4:30 pm at the office of the Comfort Lake – Forest Lake Watershed District, 44 Lake St. South, Suite A, Forest Lake, MN.

Present: President Jackie Anderson, Vice President Jon Spence, Secretary Wayne Moe, Treasurer Stephen Schmaltz, Assistant Treasurer Jackie McNamara

Others: Mike Kinney, Emily Schmitz, Mike Sorensen, Jessica Lindemyer (CLFLWD staff), Jerry Grundtner (Citizen Advisory Committee), Kevin Knopik (Abdo, Eick, and Meyers)

**2. 2017 Draft Budget Discussion**

Administrator Kinney introduced Mr. Knopik from the District's audit firm, Abdo, Eick, and Meyers. He noted Mr. Knopik was present for the first part of the meeting to discuss with the Board the appropriate financial goals for the end of this fiscal year (2016) so as to have an appropriate amount of reserves to fund the first half of the next fiscal year (2017).

Mr. Grundtner first addressed the Managers as President of the District's CAC and a taxpayer in the District. He thanked the Managers and staff for all the hours working on the budget but indicated he was concerned about the budget and how it was proposed to be funded. He noted that funding is now at a critical point and he asked that the Board consider funding the Administrative and Program funding categories with tax levy with only very little use of reserve funds so that financial stability is maintained. He noted concern about the substantial increase in levy that may be proposed by the District because residents will be very aware of the tax levy and changes to the levy, particularly due to the referendum on the school district's taxes and the fact that there is more transparency on the County's tax bills. He asked the Board to be reasonable in what is needed and reported that more scrutiny from residents is likely. Mr. Grundtner suggested that District projects be funded through bonding.

Mr. Knopik provided comments on his review of the District's 2016 and 2017 finances. He noted that the fund balance of the General Fund at the end of 2015 was approximately 73% of the District's annual operating budget. He recommended that the fund balance stay between 30% and 50% of annual operating costs, and further recommended that the District maintain a fund balance closer to 50% of annual operating costs because of the tax collection schedule. He noted that at the end of 2016, there's a projected fund balance of \$168,000 or approximately 57% of the annual operating costs. He reported that over the past 5 years, the fund balance has also decreased about 57%.

Mr. Knopik reviewed the proposed fund balance use in 2017 and noted that the resulting General Fund balance would be \$28,000 at the beginning of 2018. He noted that spending the fund balance down over the years was an appropriate activity; however, in looking at the trend going forward, the fund balance needs to be maintained at approximately 50% of annual operating costs (or \$150,000) in order to maintain appropriate cash flow.

Mr. Knopik went on to review the Implementation Fund or the District's projects and programs and noted that grant funding is always a big unknown. He noted that the fund balance for projects and programs at the end of 2016 is projected to be 30% of the 2017 projects and programs budget but acknowledged that many projects and programs expenses come between spring and fall. He noted that most grant funds are received on a reimbursement basis so that upfront cash/reserve needs to be available.

President Anderson asked how other watershed organizations include the unknown grant fund amounts within their budgets. Mr. Knopik indicated that in his experience, most organizations prepare a budget that assumes no grant funding will be received. They then prioritize projects with the available levy/funding and if grant funding is awarded, they use the grant funds on the highest priority projects. He reported that one of his watershed clients does budget very conservatively and includes grant funds in its revenue and a variance in the budget can be explained in an audit if grants are not received.

Mr. Knopik concurred with Administrator Kinney that it's a reasonable practice to allocate staff time/expenses needed to implement projects within the budget of specific projects. However, he noted that it doesn't solve the cash flow problem because the District pays salary within operating expenses.

President Anderson asked if the District needed to account for any accruals in paid time off or sick leave and asked how that is handled within the budget. Mr. Knopik reported that it's an equation that uses hourly rate and carryover policies but that it's not something typically reflected in the budget. He noted that unless the District knows a staff member is retiring at a certain time, it can't really be budgeted. He did agree, however, that there wasn't a reason the District couldn't include an amount within the budget to pay out accruals if staff member retired or left the organization. He noted it could be part of a contingency fund.

[Mr. Knopik departs the meeting.]

Administrator Kinney reviewed previous budget discussions based on a wide variety of inputs. He noted that Managers needed to decide what projects and programs should be in the 2017 budget and which should be set aside for a different year. He reviewed a revised budget with staff recommended adjustments for certain line items. He reported that the Managers could consider (at some point in the future) the Washington County Capital Projects financing piece and that he is waiting for more information from the County on the District's eligibility for that financing option.

Administrator Kinney reported that the Managers should decide on a general levy amount and desired fund balance and then allocate the funding available among projects and programs.

He reported that the revised budget does not include grant funding within the revenue so that appropriate funding levels are shown.

Administrator Kinney answered questions about the graphs presented. He agreed that “cash that’s owed to others” and “grant funds not yet utilized” should be included as a liability to the District. There was discussion about how and where within the budget to show grant funding received and grant funding to be received.

Managers asked where the biggest increase in spending has occurred. They agreed that spending on AIS programs and the operating expenses (overhead) have both increased substantially. It was noted that even though salaries are allocated among projects, the total expense for general operation is \$550,000 annually.

President Anderson noted that Managers have been working all summer on refining the budget and prioritizing projects and programs. Administrator Kinney noted that previously Managers had indicated that a \$1M levy is appropriate, but with current proposed spending, the fund balance would be too low, as explained by Mr. Knopik. Administrator Kinney noted that he was trying to find ways to get the spending in line with the proposed levy of \$1M, including bonding, loans, or lower spending.

Manager Schmaltz indicated that lower priority projects should not utilize District funds, and instead should only be implemented if grant funding is received. Further, he noted that once a levy and budget are set, perhaps funding amounts for particular projects could shift over the course of the year, depending on implementation opportunities, etc.

Manager McNamara reminded Managers that residents of Forest Lake will see an increase in taxes from the City for the new City building. She expressed concern about the overall tax burden on residents and indicated support to keep District levy amount as flat as possible.

Managers reviewed the new tax rates for Washington County residents and looked at the impact of different levy amounts per average properties. They also looked at historical District levy amounts on properties, noting that the proposed levy of \$1M is no higher a tax burden than in 2009 – 2011.

Manager Schmaltz recommended moving AIS programs into project categories because they directly impact residents by improving the lakes. He noted that this would help show residents why the levy is higher. President Anderson indicated that AIS programs are not a “one and done” activity like projects. She agreed that it is high visibility to residents and that the program changes each year. There was more discussion about where the AIS programs should be shown in the budget. There was agreement that AIS activities be left under programs.

Managers discussed which projects and programs should be included in the final budget in order to get to a reasonable total levy and use of fund balance. Administrator Kinney noted he has received proposals from other entities for some work that would save money. President Anderson noted that the Bone Lake subwatershed should be the priority in order to implement

adaptive management and to realize improvements in lakes downstream. Administrator Kinney described plans to address agricultural runoff in the Bone Lake subwatershed.

There was agreement among Managers that certain projects in the Forest Lake subwatershed would be shown in the budget but that no District funding would be shown, understanding that the projects will be done if grant funding is awarded. Administrator Kinney noted other areas within the budget that could be reduced to reflect more likely spending and/or savings through the use of District staff rather than consultants.

After taking into account the Administrator's suggested revisions to the budget, Managers agreed there was approximately \$300,000 that still needed to be cut from the budget and directed staff to find areas to further cut the budget and to bring a final budget to the Board at the next workshop in preparation for the presentation and public hearing scheduled for September 8<sup>th</sup>.

There was agreement that a \$1M levy was an appropriate amount. Administrator Kinney reported that he submitted to the District's official publications a notice of the September 8<sup>th</sup> public hearing and included a levy amount of \$998,000 and a budget amount similar to what was discussed at this meeting. However, it was noted that the levy and budget figures could change slightly but that a final maximum levy amount was due to the County by September 15<sup>th</sup>.

Manager Spence moved to direct the Administrator to adjust the budget as needed to reflect a \$1.9M total 2017 budget with approximately a \$1M 2017 levy and to bring a final proposed budget to the next Board workshop. Seconded by Manager Moe. Upon a vote the motion carried 5-0.

### **3. Staffing Discussion/Update**

Administrator Kinney reviewed staff changes including the fact that Emily Schmitz is moving to Utah but that it's possible to keep Ms. Schmitz as an employee and have her work remotely. He reported that, for the Board's consideration, he worked with District Legal Counsel Holtman to draft a policy that allows such a situation.

Administrator Kinney also noted that the City of Forest Lake has discussed sharing a position due to an overlap in duties but that negotiations haven't been finalized.

President Anderson moved to approve the tele-work policy as presented. Seconded by Manager Schmaltz. Upon a vote the motion carried 5-0.

### **4. Adjournment**

President Anderson moved to adjourn the meeting at approximately 6:10 p.m. Seconded by Manager Spence. Upon vote, the motion carried 5-0.