

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

Thursday August 4, 2016

1. Call to Order

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

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

Absent: Assistant Treasurer Jackie McNamara

Others: Mike Sorensen, Jessica Lindemyer (CLFLWD staff).

2. Public Open Forum

No comments.

3. 2017 Draft Budget Discussion

President Anderson asked for comments or questions from Managers about any items in the draft budget. Manager Schmaltz first reported on his meeting with the District accountant and he reviewed the new summary sheet. He reported on expected tax levy revenue, grant revenue, other income, and expected fund balance. Manager Schmaltz noted that administration expenses in 2017 are expected to total approximately \$300,000; spending on programs would be approximately \$1,168,000; and spending on projects would be just over \$1,500,000. He noted total spending would be just under \$3,000,000 in 2017 which leaves a difference of approximately \$1,300,000 between revenue and expenses. He noted that after applying the reserve funds of \$972,000, it leaves a funding gap of \$332,000. Manager Schmaltz reported on grant funding spent vs. grant funding expected to be received which is counted as revenue. Accounting for expected grant funding to be received, the 2017 budget ends with a net positive of \$122,000 in reserve funds.

Managers further reviewed grant funds spent vs. received, other revenue lines, and the impact on reserve funds in order to understand the District's financial position. Managers and staff adjusted figures within the budget spreadsheet to appropriately reflect all known and projected income and expenses and to balance the budget.

After adjustments, it was determined the reserve budget would be approximately \$1.2M at the end of 2016 which would carry the District almost half way through 2017 expenses. President Anderson noted that the monthly fixed cost (overhead) for the District to operate is approximately \$50,000 or \$300,000 over six months, until the June tax payment. Managers

acknowledged that not all taxes levied are actually collected due to some tax delinquent properties, but that it's usually very close.

There was consensus that the revised budget process and budget tables are very good. Managers agreed the revenue budget should be kept separate from the expense budget so that it's very clear within the budget table, including grant revenue. There was also agreement that grant funds need to be marked as dedicated for a particular project so that it's clear those funds cannot be used for other expenses.

The Managers reviewed the grant summary sheets. Manager Schmaltz noted the columns of the budget sheet including program codes, granting agency, description, lake subwatershed where the project is located, and funding categories. It was noted that some grant funds come in as a reimbursement after District funds are spent. Manager Schmaltz noted that a probability or confidence level of receiving the grant should be added to budget calculations and that currently, approximately 50% of grant requests are funded. Managers reviewed recent grant amounts requested by the District vs. grant funding received. It was noted there may be incorrect figures in the budget regarding the amount of grant funds requested for the Bone Lake Conservation Practices Project. Staff agreed to investigate those figures.

There was consensus to estimate the District would receive 50% of the grant funds requested for budgeting purposes.

Managers discussed how the District would budget in 2018 due to the projected decrease in reserve funds in 2017. It was noted that spending would need to decrease or the tax levy would need to increase. President Anderson noted a healthy reserve would be \$1.5M because that is 50% of the annual budget.

Managers walked through specific items in the budget where they had questions or concerns. President Anderson noted she didn't see the extra \$30,000 previously agreed to be included under Administration expenses to account for new overtime rules. Ms. Lindemyer noted that amount was added to the workplan page and that it gets divvied up among different programs. President Anderson noted that a new code number was supposed to be created for ongoing initiatives under land acquisition to accomplish preliminary work, as needed. There was discussion and clarification about funding for different on-going initiatives. Various other line items were clarified including figures for AIS work on various lakes.

President Anderson recommended that the District increase the annual tax levy to \$1M. She noted that amount would provide for funding needed in future years. She noted that since the District is in a phase of implementing large projects and making progress on lake improvements, the funds are needed. Manager Schmaltz noted that future deficits are projected to be in the hundreds of thousands, so that raising the tax levy by only \$200,000 wouldn't solve the problem. There was further discussion and clarification about grant revenue and how that's shown in the draft budget. Managers agreed that the tax levy would have to double in order to implement all that is planned in 2017 and still have the appropriate amount left in reserves. It was noted that projects and programs would need to be prioritized

to determine what should be cut out of the budget in 2017. Managers walked through anticipated cash flow over the course of the year.

Manager Schmaltz noted the drop in reserve funds over the years and the large increase in spending projected between 2016 and 2017. President Anderson noted that the Managers need a chart that shows the likely costs of projects yet to be implemented beyond 2017. She noted it's a tool that's been requested for several months and is critical to make final decisions on the budget and levy. She noted that some of the biggest projects in the watershed plan are being implemented this year and in 2017 and that projects for Judicial Ditch 6 should also be included in a "future projects" list. She noted a report is needed on the progress on watershed plan implementation. It was noted that spending on AIS and other projects that weren't in the 10-year plan are being implemented.

Managers discussed how the use of reserve funds should be shown in the budget as a revenue source (which hasn't been done in previous years) and that the annual budget should be balanced between revenue and expenses. President Anderson noted that the accounting firm should be assisting the District with understanding and planning for appropriate cash flow.

There was discussion about how an increase in the levy might not be well received by some residents and that the Board and staff need to be ready to explain how and where the funds are being spent. It was recognized that although the goal of the Board has been to keep levy amounts stable over years, that sometime a significant increase in the levy is needed, particularly now when the District is in the project implementation phase. Managers agreed that communication to residents about project implementation is critical, including the development of project fact sheets.

Manager Spence asked how the District can plan to spend almost \$3M in 2017 but only collect \$1M in taxes. It was noted that grant income should be significant and that cash flow calculations may indicate that expenses can be covered using reserves. Manager Spence reiterated his comment that if \$3M is to be spent, then \$3M needs to be raised. There was discussion about the possibility of bonding, as needed.

Managers and staff worked within the budget spreadsheet to determine reserve amounts if the levy were to stay at \$1M for 2017 and 2018.

Managers noted that some projects won't get implemented as planned in 2017 and that perhaps some projects should get moved into a lower priority category in case funding isn't available.

There was consensus that some increase in taxes is warranted and that further discussion is needed to finalize the budget. It was suggested that each Manager go through the budget individually to prioritize projects for potential removal from the 2017 budget or moved to a secondary tier, perhaps only to be implemented if grant funding is awarded for the project.

Staff was directed to send county tax calculators to Managers.

President Anderson noted that the District hears from residents about what projects are NOT being done, rather than complaining about District spending. She noted that AIS spending and project implementation are critical but there may be other areas of the budget that could be decreased.

4. Adjournment

Next Meetings

Next Board Workshop: August 23, 2016

Regular Board Meeting: August 25, 2016

Manager Spence moved to adjourn the meeting at approximately 6:36 p.m. Seconded by Manager Schmaltz. Upon vote, the motion carried 4-0.

Wayne S. Moe, Secretary _____