

**VILLAGE OF WALWORTH
SPECIAL VILLAGE BOARD**

Thursday, August 8, 2019, 6:00 p.m.
Village Hall, 227 N. Main St., Walworth, WI

MINUTES

Call to Order: President Connelly called the meeting to order at 6:00 p.m.

Roll Call: Present: President Connelly, Trustees Czaja, Mizialko, Reiersen. Absent: Nordmeyer, Maynard, McMahon. Also Present: Carla Gogin and Gwen Zech from Baker Tilly, Clerk Treasurer Waswo, Deputy Clerk Treasurer Rogers.

Pledge of Allegiance

Comments from Citizens Present: Any item presented to the Village Board by a citizen will be heard and may be placed on the next regular meeting's agenda. None.

Approval of Original "Class B"/Class "B" Liquor & Fermented Malt Beverage License applications filed by JA Caye Holdings LLC, 103 Kenosha Street, Alisha Kalous, Agent, contingent upon payment of all outstanding liabilities and delinquencies with the Village of Walworth and wholesaler invoices, and clearance of any Department of Revenue holds; and contingent upon J.K. Sweeney's Pub Ltd d/b/a J K Sweeney's Pub Ltd, surrendering their license

CT Waswo stated Sweeney's is selling their business and the new owners are requesting a liquor license. The closing is contingent on the new owners obtaining the license. If the board approves, the license will be granted once Sweeney's surrenders their license.

Reiersen/Mizialko motion to approve the Original "Class B"/Class "B" Liquor & Fermented Malt Beverage License application filed by JA Caye Holdings LLC. Motion carried 4 to 0.

Baker Tilly Audit Presentation and Acceptance of 2018 Audit

Carla Gogin of Baker Tilly presented the 2018 audit. There was a restatement in the allocations of the revenue of the TIF district. The TIF district was to receive exempt computer aide from the time it was created, and it had not received that revenue. They allocated approximately \$34,000 from the general fund over to the TIF district. Up until this year the TIF was running at a deficit. However, had it been allocated its share of exempt computer aide that would not have been the case in prior years. This puts the TIF district in the positive. Prior to this year the TIF district was borrowing money from the general fund to pay for its operations. But the exempt computer aide in addition to the tax revenue that the TIF district receives is sufficient to pay the costs that it had up until this point in time. While it did reduce revenues in the general fund, it improves the position of the TIF district.

The village's fund balances were reviewed. Nonspendable fund balance represents assets of the village but are not readily liquid. Delinquent personal property tax is one of the more significant amounts in the \$62,000 nonspendable fund balance. Last year the nonspendable went down as the general fund was loaning money over to the TIF district. Because of the exempt computer aide being recorded in the TIF district, that loan no longer exists. Last year the restricted fund balance was zero. This year it's \$74,877. Last year the village borrowed \$105,000 in the general fund for various projects. At the end of 2018 there was \$74,877 left. This money will be spent in 2019. This money can only be used for the projects it was borrowed for. If the village decides not to spend the money, the funds can only be used to pay down the debt. The village does not have any committed fund balance. Assigned fund balance represents park

funds. There was a private purpose trust fund related to monies gifted to the village for parks. The village closed that in 2017 and transferred those monies to the general fund. Those monies are assigned for park purposes. Also included in the assigned fund is about \$76,000, which is the property tax equivalent from the water utility. This revenue comes in during 2018 but is used in the 2019 budget. The unassigned fund balance is \$141,000. Compared to last year this is up about \$20,000. The biggest driver is that the village did better than budgeted in revenues by about 3.4%. The village also had a number of categories in expenditures that came in under budget. This could be from expenses that are being carried forward to 2019 from the bond proceeds. Good news is that the unassigned fund balance went up and the overall fund balance went up. A big portion of that has to do with unspent bond proceeds.

The unrestricted or unassigned fund went up from 9.51% to 10.8%. This is a positive trend. The GFOA recommends about 20% or 2 month's of unrestricted funds. However, that is geared more towards a larger city. Baker Tilly recommends over that amount for smaller municipalities. Having fund balance allows flexibility or additional funds for things that can't be predicted such a bad snow storm.

The village issues general obligation debt. There is \$917,185 related to village debt and \$669,079 of utility debt. The GO debt capacity is based on 5% of equalized value by state statute. The village is currently at 13% debt limit which is a decrease from last year's 15%. There is a balance between paying for long lived assets that have a long life and utilizing general obligation debt to pay for that versus using funds on hand. Given that the general fund doesn't have a lot of funds on hand, the village is likely in a position to look to general obligation debt for road projects. The nice thing is that the village does have the debt capacity. Looking at the overall budget, 5.78% is spent on debt. A bond rating agency would say to keep that under 20%.

Taxes and intergovernmental revenues are the largest revenue sources. Public Safety has the largest expense, then Public Works and General Government are second and third, which is very common.

Gwen Zech presented the utility budget. There was a slight increase in total water gallons sold during the year. There was a more significant impact to operating revenues. That is primarily driving from rate increases during the second half of 2018 as a result of the completed water rate study with the PSC and increasing sewer rates as well. Operating expenses include treatment costs of the wastewater treatment facility, labor and operations, and depreciation on long lived assets. The PSC regulates the authorized rate of return. The rate of return represents the earnings you are allowed to earn on top of your capital investment. The capital investment would be all of the infrastructure in the systems of the water utility, including the water mains. The PSC authorized the Village to earn 4.9% beginning in 2018 on those capital assets. That was built into the rate recovery at that time. The authorized rate decreased as the rate study was completed at that time. That gets adjusted any time you would go in for a rate case study. Because the rate increase was effective in 2018 we came close to that rate of return. The unrestricted cash decreased as the sales increase. The overall cash position did not change significantly. Baker Tilly and the GFOA recommend 3 months of unrestricted funds on hand. The Utility is meeting that with 6 months of unrestricted funds.

Trustee Mizialko questioned the percentage of public safety. Carla responded 58% of monies spent in 2017 was for public safety, which increased to 62% in 2018. She noted public safety came in under budget of about \$83,000. Of the total budget of \$1.4 million, \$850,000 was for Police, followed by Fire Suppression and then the Rescue Squad.

Carla commented on the Communication to those charged with Governance and Management. She feels the document is important but noted not a lot of time has passed since the last audit to implement some of these changes. She stated their report does not take into account cost versus benefit. For example, segregation of duties is difficult in smaller communities that do not have the funds to hire additional staff.

Trustee Czaja noted we did purchase a fund accounting system and combined funds. She was concerned with the fund balance and the village's ability to go to a bonding agency and get a good rating. With our fund balance as low as it's been, it's questionable at this time until we can increase that fund balance. Carla stated bonding agencies like to look at managements plans and policies for fund balances and what are the plans on achieving these. These things are positively received by the rating community. Trustee Czaja stated we have a discussion now about building a \$5 million dollar Emergency Services building which would be a bond issue. She is concerned with the low fund balances. President Connelly stated it would be tough to get the rating that we would want knowing we don't have a lot of cash on hand. Carla replied the debt limit would increase to 60% to 70%. That's where it becomes very important to look at your 5 to 10 year capital needs of the village and then prioritize and balance all of that.

President Connelly questioned the \$90,000 that we put into a replacement account as a requirement of the bond issue. He asked if we can use the money in the replacement account to put towards a new bond issue for another build at the sewer plant. Gwen stated the fund is specifically for the replacement of equipment. It's called either a depreciation fund or equipment replacement fund. There is a new revised point in the letter that we don't currently have a basis for the \$90,000 and that we are suggesting to identify specifically what type of assets should be covered by the equipment replacement fund. Typically, it would cover the things at the wastewater treatment plant that wear out quickly, typically pumps or lift station pumps. The purpose of why your bond resolution has that is they want you to be able to maintain and service those items that need repair. President Connelly asked if it would be with the original bond issued. Gwen stated it is not. It says the board should make a list. Baker Tilly was not able to find historical information on it. She noted there has to be a basis to the \$90,000. Carla stated there is usually a maximum and once you get to this amount, you're fully funded. Connelly noted the clean water fund loan that created this \$90,000 was used to build an addition to the sewer plant. The sewer plant, through an Intergovernmental Agreement, has its own board, own budget, and its own auditor. When something breaks, they take care of it and we pay based on the rates. The question becomes when will we be able to spent it and what is it for. Gwen stated the language is specific, it states it's for the maintenance of the system. It could be lift stations along the way. The date of issuance of the clean water fund loan was November 25, 2009.

Gwen stated the language from the covenants states, "All revenues collected for the equipment replacement shall be used for the replacement and major repair of equipment necessary for the operation of the sewer system. Annual deposits shall be sufficient to meet the equipment replacement itemized schedule developed by the municipality or the percentage schedule option." Those are the two options the clean water fund allows you to operate. Typically, the annual deposit method is followed with an itemized list. It allows for a longer time to fund that. President Connelly noted a past board discussed reducing the amount from \$90,000 to \$500 a year because they thought it was way too high. However, we can't find any minutes or resolution where they actually changed it. He asked if the board has the authority to change that. Gwen stated using this language, it says the funds shall be sufficient. The purpose of making that language ambiguous is to allow discretion as the board to decide what's the best for your operations and rate recovery mechanisms.

President Connelly asked about the ability to levy for additional staff. Carla stated per state statutes, operating costs are associated with additional staffing; those costs would be included in your levy limit. The levy limit only allows increases to the tax rate by a certain percentage based on growth. If you are not growing, in the state's mind you don't need more staff; therefore, you can't levy for it. That's where you have to think about paying for longer lived assets out of the levy or converting those items to debt, which then could free up monies for true operating type costs. President Connelly noted we would have to ask the public to exceed the levy. It's almost encouraged to borrow. Carla noted several municipalities that

have went to referendum recently to increase their levy for operations. Trustee Czaja feels we can manipulate the budget to include a part time position.

Trustee Czaja questioned refunding the water impact fees. Gwen stated it would be paid out of the utilities unrestricted cash. If it's not cleared up by the end of the year, we would accrue that as a payable.

Carla stated there are a couple items to get cleaned up and the report will be finalized next week.

Czaja/Mizialko motion to receive the 2018 audit. Motion carried 4 to 0.

Adjournment

Reierson/Mizialko motion to adjourn at 6:57pm. Motion carried 4 to 0.

Sabrina Waswo, Clerk Treasurer