

CITY OF LAKEVILLE, MINNESOTA
EXECUTIVE AUDIT SUMMARY
YEAR ENDED DECEMBER 31, 2022



July 14, 2023

To the City Council and Management
City of Lakeville, Minnesota

We have prepared this management report in conjunction with our audit of the City of Lakeville, Minnesota's (the City) financial statements for the year ended December 31, 2022. The purpose of this report is to provide comments resulting from our audit process and to communicate information relevant to city finances in Minnesota. We have organized this report into the following sections:

- Audit Summary
- Governmental Funds Overview
- Enterprise Funds Overview
- Government-Wide Financial Statements
- Legislative Updates
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the City, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information relevant to city finances in Minnesota. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read 'Christopher G. Knopik'.

Christopher G. Knopik, CPA, CFE
CliftonLarsonAllen LLP

Minneapolis, Minnesota
July 14, 2023

AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the City Council, administration, or those charged with governance of the City.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA AND GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended December 31, 2022, and the related notes to the financial statements. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally, in our Governance Communication Letter, and in our audit engagement letter. Professional standards also require that we communicate the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the City's financial statements for the year ended December 31, 2022:

- We issued an **unmodified** opinion on the City's basic financial statements.
- We issued an **unmodified** opinion on the City's compliance with major federal award programs.
- We reported no deficiencies in the City's internal control over financial reporting that we considered to be material weaknesses.
- We reported no deficiencies in the City's internal control over financial reporting that we considered to be a significant deficiency.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.

Overall, we found the City's financial records to be in excellent condition. This not only provides for an efficient year-end audit, but should also provide confidence in the interim financial data used to manage the City throughout the year.

GOVERNMENTAL FUNDS OVERVIEW

This section of the report provides you with an overview of the financial trends and activities of the City's governmental funds, which include the General, special revenue, debt service, and capital project funds.

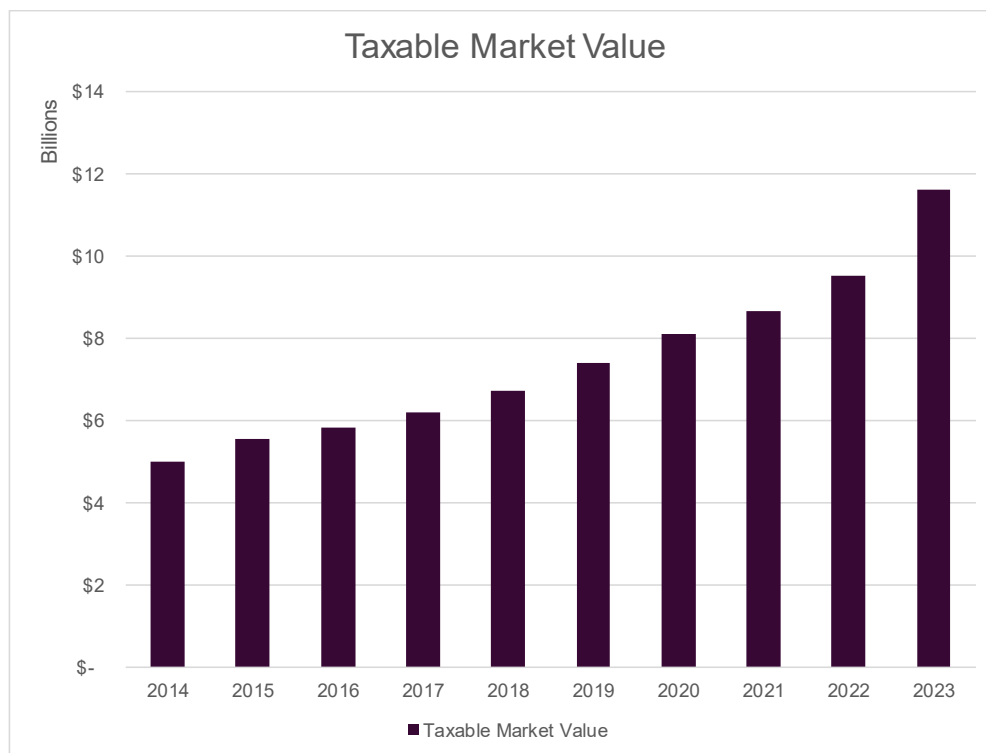
These funds are used to account for the basic services the City provides to all of its citizens, which are financed primarily with property taxes. The governmental fund information in the City's financial statements focuses on budgetary compliance, and the sufficiency of each governmental fund's current assets to finance its current liabilities.

PROPERTY TAXES

Minnesota cities rely heavily on local property tax levies to support their governmental fund activities. For the 2021 fiscal year, local ad valorem property tax levies provided 44.0 percent of the total governmental fund revenues for cities over 2,500 in population, and 35.5 percent for cities under 2,500 in population. Property tax levies certified by Minnesota cities for 2022 increased about 8.4 percent over 2021, compared to an increase of 4.5 percent the prior year. Levy limits were not in place for 2021 or 2022.

The total market value of property in Minnesota cities increased 17.0 percent for the 2022 levy year, following an increase of 4.5 percent for levy year 2021, an increase of 4.7 percent for 2020, an increase of 7.1 percent for 2019, an increase of 5.3 percent for 2018, an increase of 5.6 percent for 2017, an increase of 5.7 percent for 2016, and a four-year trend of declining market values for levy years 2011 through 2015.

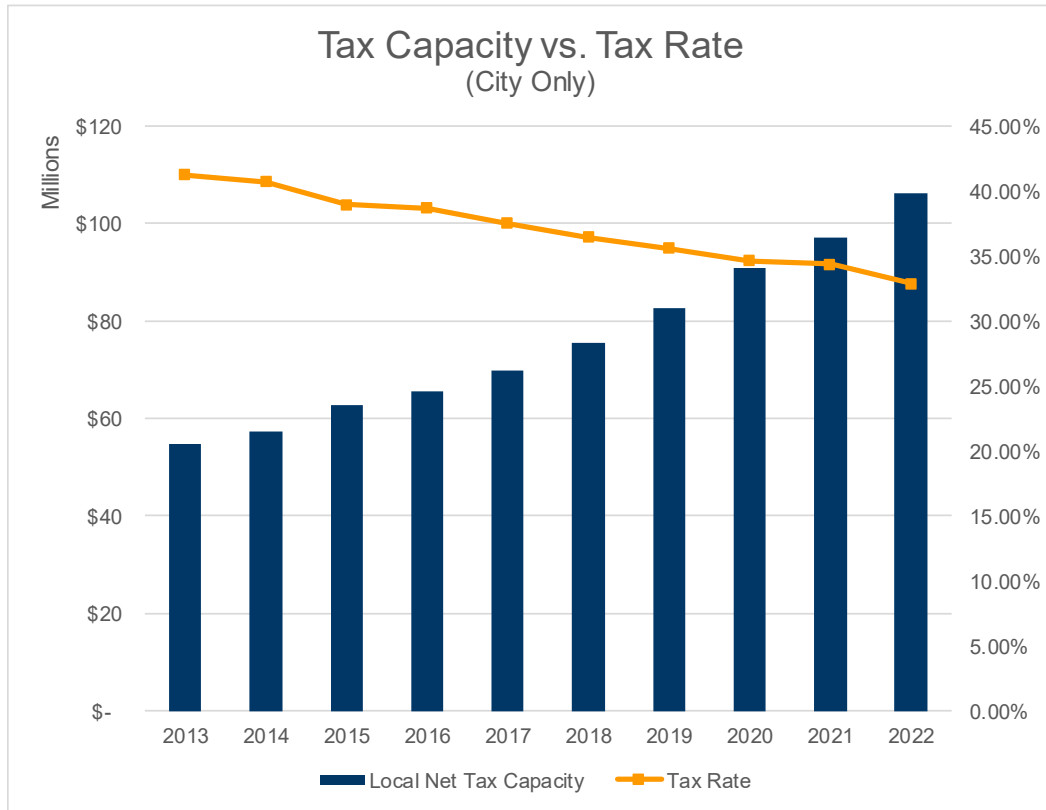
The City's taxable market value increased 6.5 percent for taxes payable in 2021 and 10.0 percent for taxes payable in 2022. The following graph shows the City's changes in taxable market value over the past 10 years plus 2023:



Tax capacity is considered the actual base available for taxation. It is calculated by applying the state's property classification system to each property's market value. Each property classification, such as commercial or residential, has a different calculation and uses different rates. Consequently, a city's

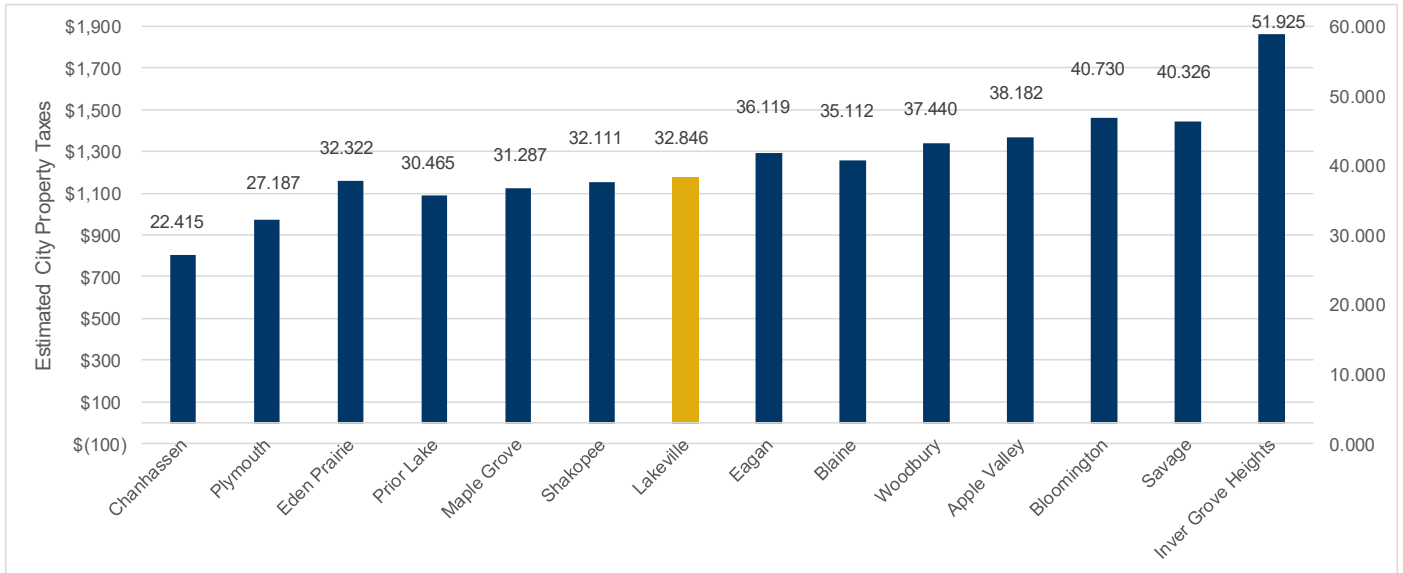
total tax capacity will change at a different rate than its total market value, as tax capacity is affected by the proportion of the City’s tax base that is in each property classification from year-to-year, as well as legislative changes to tax rates and exemptions. The City’s tax capacity increased 9.5 percent and 7.1 percent for taxes payable in 2022 and 2021, respectively.

The following graph shows the City’s change in tax capacities over the past 10 years:



Past reports included a comparison of property tax capacity rates between the City, seven-county metro area, and all cities state-wide average. The 2021 and 2022 comparison data was not available for the seven-county metro area nor all cities state-wide; therefore, the chart is not included this year.

The following chart provides a comparison of the City’s 2022 tax capacity rate with other comparable cities:



This chart is based on the City of Lakeville’s 2022 median home estimated market value of \$358,300 and estimated taxable market value of \$353,307. The City of Lakeville when compared to other local cities is right in the middle. This chart is an estimate of **only** the City’s portion of taxes and excludes other taxing jurisdictions (i.e. schools, county, special districts).

GOVERNMENTAL FUND BALANCES

The following table summarizes the changes in the fund balances of the City's governmental funds during the year ended December 31, 2022, presented both by fund balance classification and by fund:

	Fund Balance		Increase (Decrease)
	As of December 31,		
	2022	2021	
Fund Balances of Governmental Funds			
Total by Classification			
Nonspendable	\$ 254,180	\$ 666,451	\$ (412,271)
Restricted	63,559,319	46,342,784	17,216,535
Committed	44,954,814	44,233,989	720,825
Assigned	2,711,000	2,493,300	217,700
Unassigned	18,420,050	19,827,288	(1,407,238)
Total governmental funds	<u>\$ 129,899,363</u>	<u>\$ 113,563,812</u>	<u>\$ 16,335,551</u>
Total by Fund			
General	\$ 22,007,407	\$ 23,985,822	\$ (1,978,415)
G.O. Improvement Debt Service	14,149,720	15,695,966	(1,546,246)
Improvement Construction Capital Projects	6,348,406	6,014,738	333,668
Municipal State Aid Capital Projects	8,300,098	4,871,982	3,428,116
Nonmajor Funds	79,093,732	62,995,304	16,098,428
Total governmental funds	<u>\$ 129,899,363</u>	<u>\$ 113,563,812</u>	<u>\$ 16,335,551</u>

In total, the fund balances of the City's governmental funds increased \$16,335,551 during the year ended December 31, 2022.

The majority of the increase was due to the restricted fund balances of \$17.2 million, committed fund balances of \$0.7 million, and assigned fund balances of \$0.2 million, which were partially offset by decreases in nonspendable and unassigned balances. The increase in restricted fund balances was due primarily related to additional collections related to park dedication fees, state aids and special assessments as well as unspent portions of the 2022 bonds. The increase in the committed balance was primarily related to the collection of water, sanitary sewer, and storm water infrastructure trunk fees in the capital projects funds.

The increase in assigned fund balance is due to in an increase in the amount set aside for the subsequent year's budgeted decrease in fund balance.

The decrease in unassigned fund balance was also primarily due to the budgeted spend down of the general funds unassigned fund balance.

GOVERNMENTAL FUNDS REVENUE AND EXPENDITURES

The following table presents the per capita revenue of the City’s governmental funds for the past three years, along with state-wide averages.

We have included the most recent comparative state-wide averages available from the Office of the State Auditor to provide a benchmark for interpreting the City’s data. The amounts received from the typical major sources of governmental fund revenue will naturally vary between cities based on factors such as the City’s stage of development, location, size and density of its population, property values, services it provides, and other attributes. It will also differ from year-to-year due to the effect of inflation and changes in the City’s operation. Also, certain data on these tables may be classified differently than how they appear on the City’s financial statements in order to be more comparable to the state-wide information, particularly in separating capital expenditures from current expenditures.

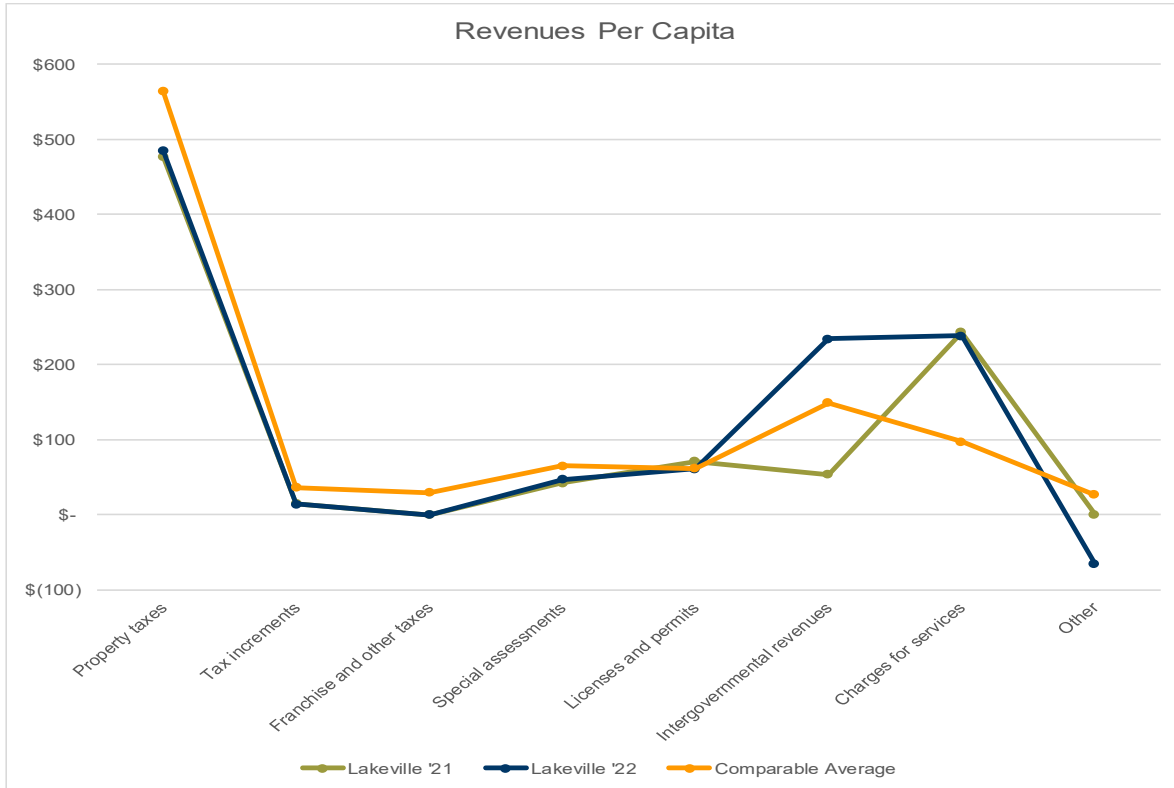
We have designed this section of our management report using per capita data in order to better identify unique or unusual trends and activities of your city. We intend for this type of comparative and trend information to complement, rather than duplicate, information in the Management’s Discussion and Analysis. An inherent difficulty in presenting per capita information is the accuracy of the population count, which for most years is based on estimates.

Governmental Funds Revenue per Capita With State-Wide Averages by Population Class				
Year	State-Wide	City of Lakeville		
	December 31, 2021	2020	2021	2022
Population	20,000 - 100,000	68,005	72,135	73,828
Property taxes	\$ 557	\$ 473	\$ 477	\$ 485
Tax increments	49	12	15	14
Franchise and other taxes	53	2	-	-
Special assessments	56	58	42	47
Licenses and permits	53	82	71	61
Intergovernmental revenues	202	214	53	234
Charges for services	110	224	243	238
Other	26	45	1	(65)
Total Revenue	1,107	1,111	902	1,014

The City’s governmental funds have typically generated less revenue per capita in total than other Minnesota cities in its population class, this is primarily due to less property tax revenue and the City does not receive local government aid (intergovernmental revenue), these are partially offset by significantly more licenses and charges for services when compared to other cities.

Total governmental funds revenues were \$74.8 million in 2022, about \$10.4 million (16.1 percent) greater than the prior year. On a per capita basis, governmental fund revenue for 2022 was \$112 greater than the prior year. Property tax revenue was \$8 per capita higher than the previous year due to a levy increase. Intergovernmental revenues were \$181 per capita higher than last year due to the level of state-aid fund street maintenance and improvement projects compared to the prior year. Licenses and permits were \$10 per capita less than last year due to a slight decrease in these revenues from 2021 and the increase in the City’s population, but there continues to be significant economic development and community growth in the City. Revenue in the “other” category shown above decreased \$66 per capita, due primarily to reduced investment returns.

Below is a chart of the City of Lakeville’s 2022 and 2021 governmental funds revenue per capita as compared to the average per capita revenues for the governmental funds of several comparable cities for the year 2021. The comparable cities included in the average below (and in any other instances of a comparable city average included in this report) are Apple Valley, Blaine, Bloomington, Chanhassen, Eagan, Eden Prairie, Inver Grove Heights, Maple Grove, Plymouth, Prior Lake, Savage, Shakopee, and Woodbury.



The expenditures of governmental funds will also vary from state-wide averages and from year-to-year, based on the City’s circumstances. Expenditures are classified into three types as follows:

Current – These are typically the general operating type expenditures occurring on an annual basis, and are primarily funded by general sources such as taxes and intergovernmental revenues.

Capital Outlay – These expenditures do not occur on a consistent basis, more typically fluctuating significantly from year-to-year. Many of these expenditures are project-oriented, and are often funded by specific sources that have benefited from the expenditure, such as special assessment improvement projects.

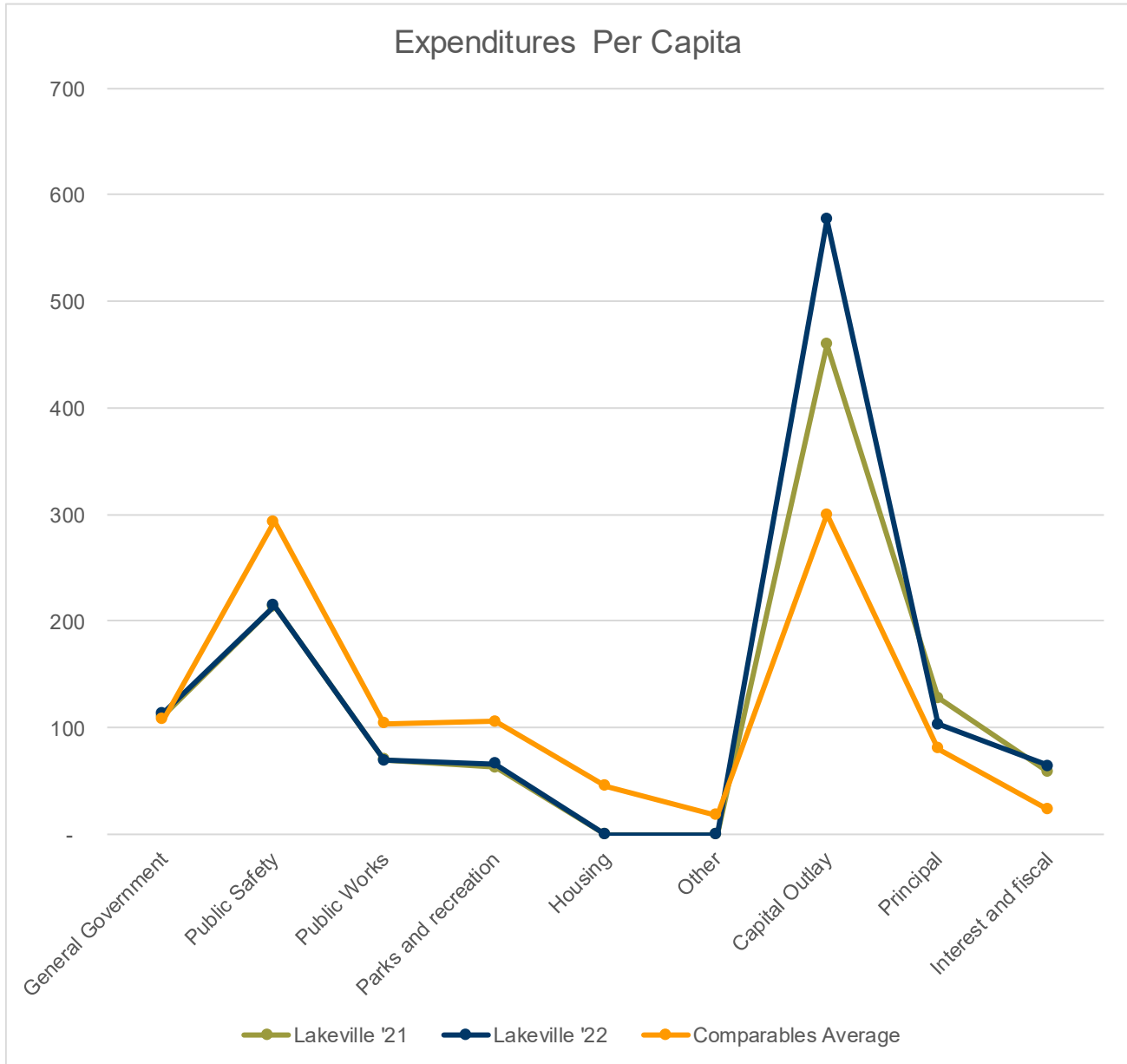
Debt Service – Although the expenditures for debt service may be relatively consistent over the term of the respective debt, the funding source is the important factor. Some debt may be repaid through specific sources such as special assessments or redevelopment funding, while other debt may be repaid with general property taxes.

The City's expenditures per capita of its governmental funds for the past three years, together with state-wide averages, are presented in the following table:

Governmental Fund Expenditures per Capita With State-Wide Averages by Population Class				
Year	State-Wide	City of Lakeville		
	December 31, 2021	2020	2021	2022
Population	20,000 - 100,000	68,005	72,135	73,828
Current				
General Government	\$ 116	\$ 119	\$ 111	\$ 113
Public Safety	327	210	214	215
Public Works	114	69	70	70
Parks and recreation	103	57	63	66
	<u>659</u>	<u>455</u>	<u>458</u>	<u>463</u>
Capital Outlay				
And construction	160	512	460	577
Debt Service				
Principal	110	143	128	103
Interest and fiscal	34	57	58	64
	<u>144</u>	<u>200</u>	<u>186</u>	<u>167</u>
Total Expenditures	<u>964</u>	<u>1,167</u>	<u>1,104</u>	<u>1,208</u>

Total expenditures in the City's governmental funds for 2022 were \$89.16 million, an increase of \$10.3 million (13.0 percent) from the previous year, or \$104 per capita. The increase was primarily due to capital outlay, which was \$104 per capita higher than the previous year, primarily due to several large street and utility improvement projects during 2022, and an increase in general government expenditures of \$2 per capita.

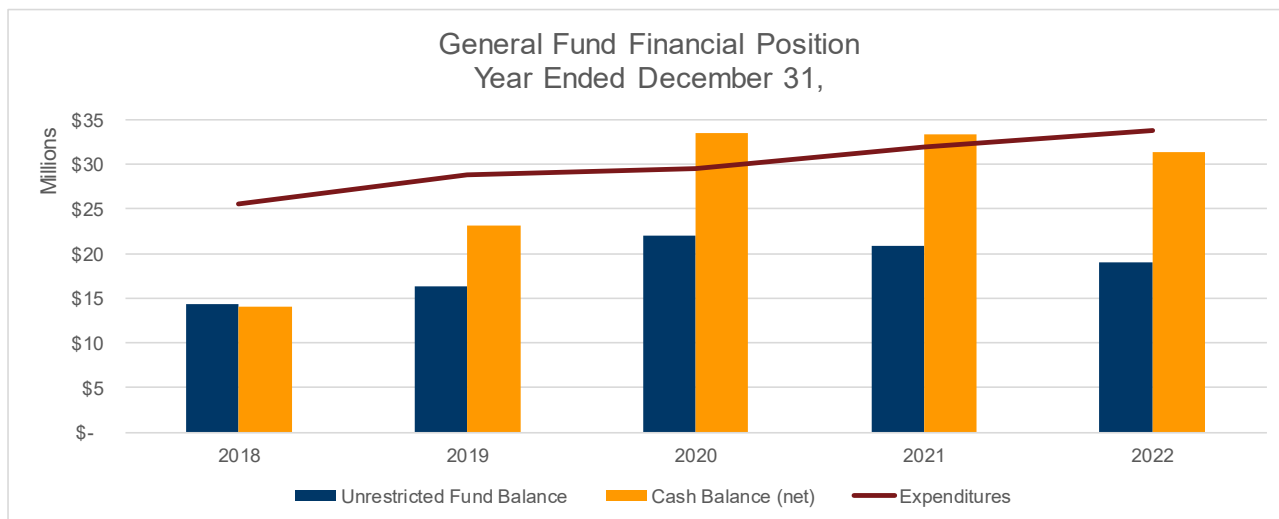
Below is a chart of the City of Lakeville’s 2022 governmental funds expenditures per capita as compared to the average per capita expenditures for the governmental funds of several comparable cities for the year 2021.



GENERAL FUND

The City’s General Fund accounts for the financial activity of the basic services provided to the community. The primary services included within this fund are the administration of the municipal operation, police and fire protection, building inspection, streets and highway maintenance, and parks and recreation.

The graph below illustrates the change in the General Fund financial position over the last five years. We have also included a line representing annual expenditures to reflect the change in the size of the General Fund operation over the same period.



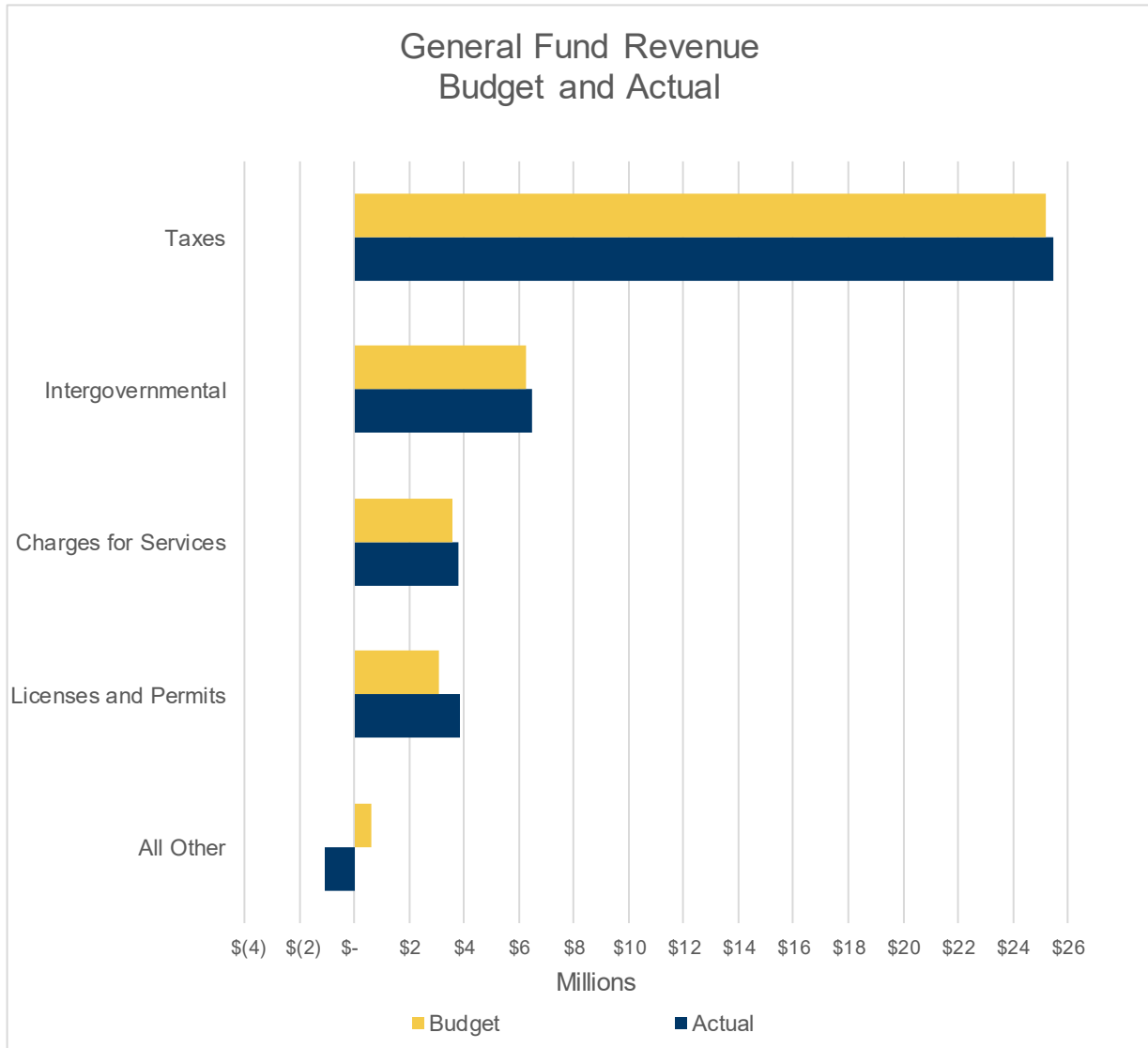
The City's General Fund cash and investments balance at December 31, 2022 was \$31,298,680, a decrease of \$1,985,807. Total fund balance at December 31, 2022 was \$22,007,407, a decrease of \$1,978,415 from the prior year, as compared to the final budget that projected a \$3,020,126 decrease in fund balance.

As the graph illustrates, the City has generally been able to maintain healthy cash and fund balance levels as the volume of financial activity has grown. This is an important factor because a government, like any organization, requires a certain amount of equity to operate. A healthy financial position allows the City to avoid volatility in tax rates; helps minimize the impact of state funding changes; allows for the adequate and consistent funding of services, repairs, and unexpected costs; and is a factor in determining the City's bond rating and resulting interest costs. Maintaining an adequate fund balance has become increasingly important given the fluctuations in state funding for cities in recent years.

A trend that is typical to Minnesota local governments, especially the General Fund of cities, is the unusual cash flow experienced throughout the year. The City's General Fund cash disbursements are made fairly evenly during the year other than the impact of seasonal services such as snowplowing, street maintenance, and park activities. Cash receipts of the General Fund are quite a different story. Taxes comprise about 66 percent of the fund's total annual revenue. Approximately half of these revenues are received by the City in July and the rest in December. Consequently, the City needs to have adequate cash reserves to finance its everyday operations between these payments.

The City's General Fund's unassigned fund balance at the end of the 2022 fiscal year represents approximately 56.4 percent of annual expenditures based on 2022 levels, compared to 65.2 percent at the end of the previous year.

The following graph reflects the City's General Fund revenue sources for 2022 compared to budget:



General Fund revenue for 2022 was \$38,534,737, which was \$159,300 (0.4 percent) less than budget.

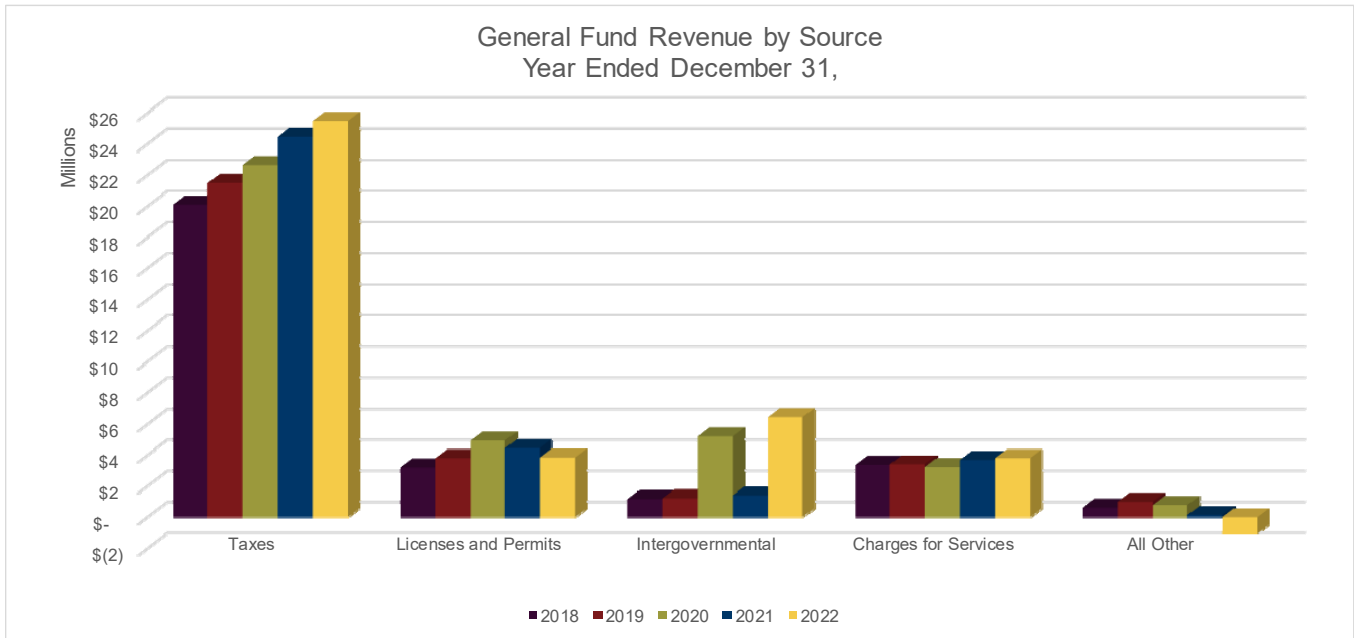
Licenses and permits revenue was over budget by \$794,042, primarily due to the number of residential building and construction-related permits issued exceeding conservative budget estimates for growth.

Charges for services revenue was over budget \$242,755, primarily due to engineering-related services in connection with developer construction administration.

Intergovernmental revenues exceeded estimates by \$220,700 due to the City's state aid contributions to PERA.

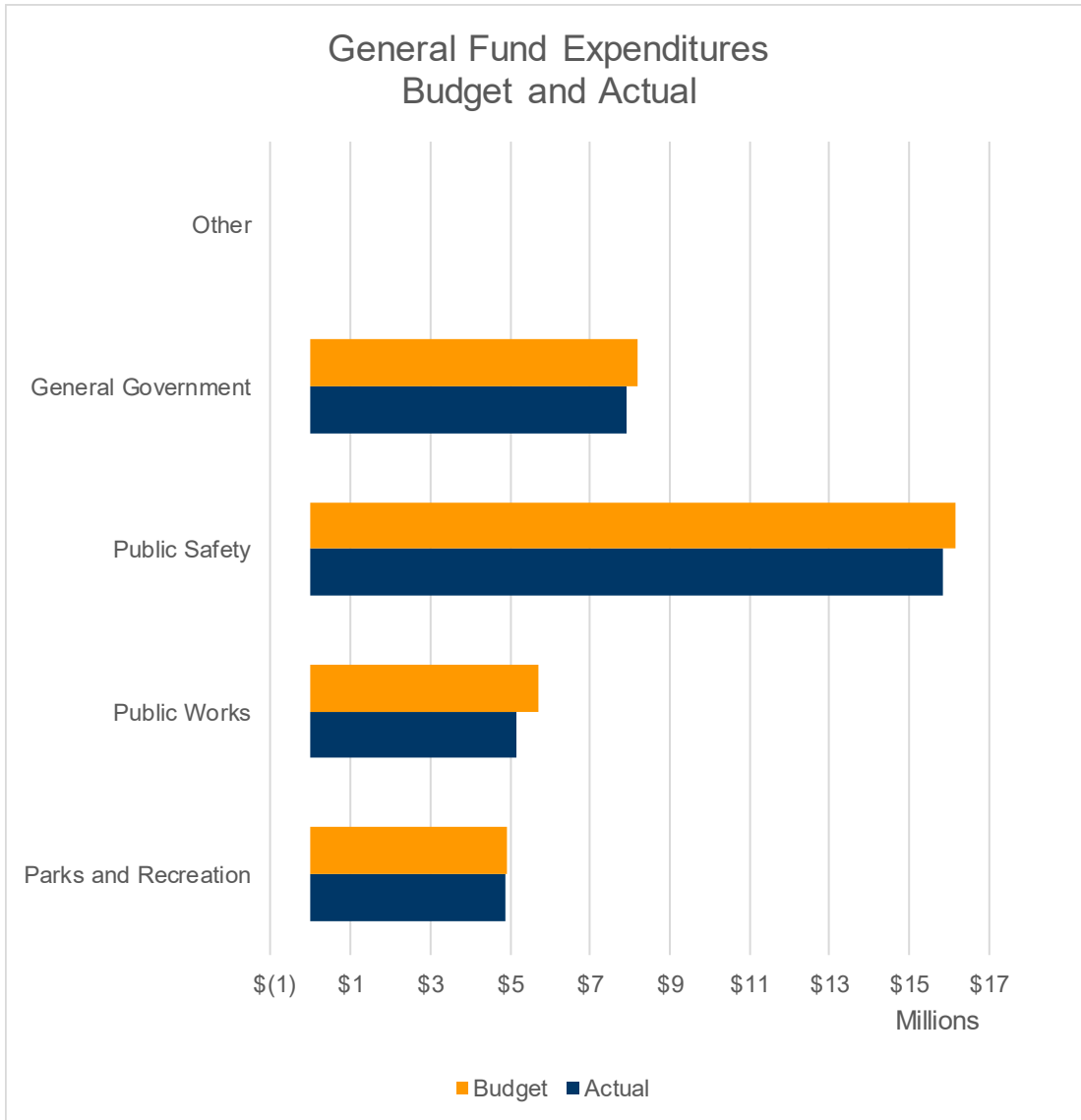
The total of all remaining other revenues were less than the total of the budget of all remaining other revenues primarily due to prevailing market conditions. The City's management employs prudent investment practices and cash management techniques to maximize investment income while protecting the City's treasury. Investments are typically held to maturity.

The following graph presents the City’s General Fund revenues by source for the last five years. The graph reflects the City’s reliance on property taxes and other local sources of revenue.



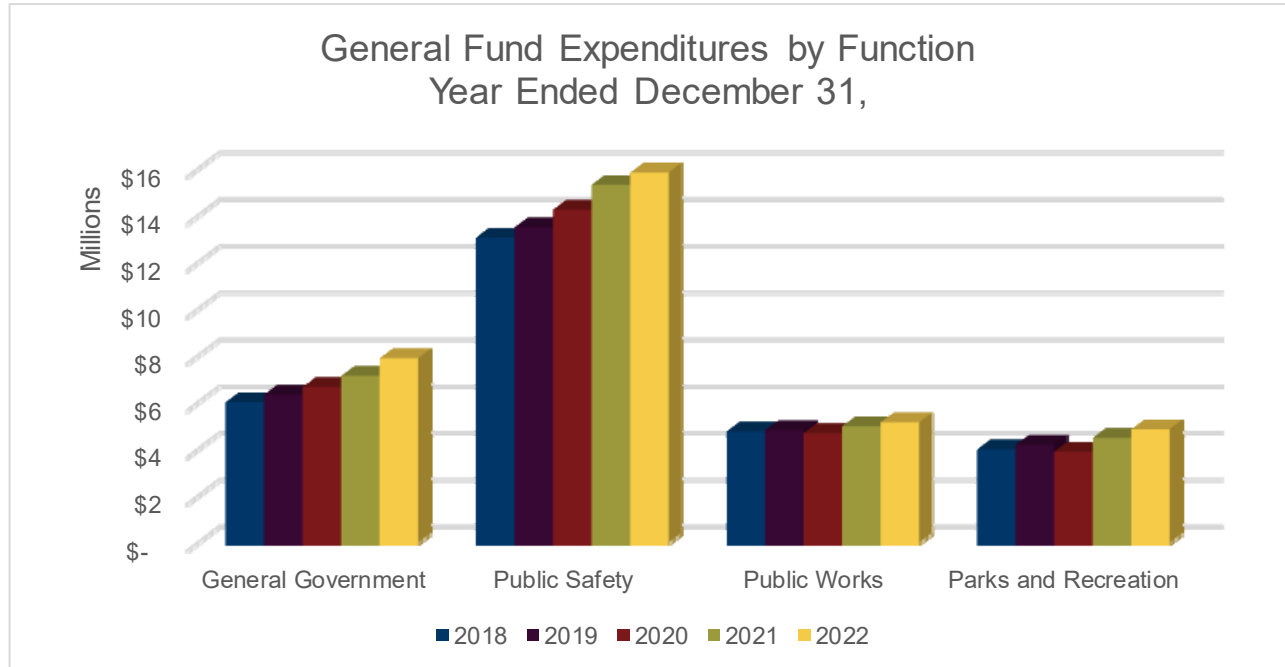
Overall, General Fund revenues increased \$4,356,884 (12.8 percent) from the previous year. Property tax revenue was \$1,027,280 more than last year due to a 4.95 percent increase in the property tax levy. Intergovernmental revenue increased \$5,041,981 due to the City’s receipt of \$5.4 million in American Rescue Plan Act in 2022. Revenue from charges for services increased \$111,376 due primarily to an increase in public works fees for engineering-related services. Licenses and permits decreased \$603,818 due primarily to a decrease in building permits during 2022. Finally, revenue in the “all other” category as shown above was \$1,219,935 lower than last year, primarily due to a decrease in investment returns, related to the decrease in fair market value.

The following graph illustrates the components of General Fund spending for 2022 compared to budget:



Total General Fund expenditures for 2022 were \$33,763,999, which was \$1,246,118 (3.6 percent) under the final budget. General Fund expenditures were under budget in every functional area, as shown in the graph above. General government expenditures were \$294,557 under budget, with the largest savings in inspections, general government facilities, and human resources. Parks and recreation expenditures were \$69,989 under budget, mainly in park maintenance, and the heritage center. Public works costs were under budget by \$551,202, primarily due to less street maintenance and construction services being needed than planned. Public safety expenditures were \$330,370 under budget, primarily in police personnel services and other charges and services related to membership dues with Dakota County taking on more of the financial responsibility.

The following graph presents the City's General Fund expenditures by function for the last five years:



Total General Fund expenditures for 2022 were \$1,818,682 (5.7 percent) higher than the previous year, with the increases primarily occurring in general government and public safety. The majority of the increase was in personnel costs, which were due to contractual wage increases, inflationary benefit cost increases, higher costs for police security services and fire, offset with savings from employee vacancies and leave without pay and lower hours for seasonal positions, compared to the prior year.

ENTERPRISE FUNDS OVERVIEW

The City maintains two enterprise funds to account for services the City provides that are financed primarily through fees charged to those utilizing the service. This section of the report provides you with an overview of the financial trends and activities of the City’s enterprise funds, which include the (water, sewer, street light, and environmental resources) Utility Fund and Liquor Fund.

ENTERPRISE FUNDS FINANCIAL POSITION

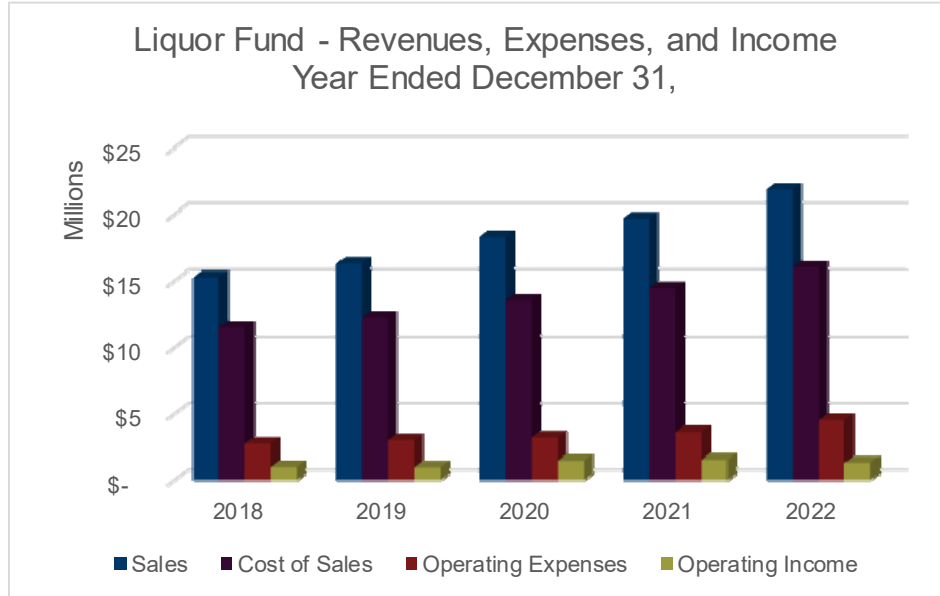
The following table summarizes the changes in the financial position of the City’s enterprise funds during the years ended December 31, 2022 and 2021, presented both by classification and by fund:

Enterprise Funds Change in Financial Position			
	Net Position As of December 31,		Increase (Decrease)
	2022	2021	
Net Position of enterprise funds			
Total by classification			
Net Investment in capital assets	\$ 180,563,445	\$ 170,514,908	\$ 10,048,537
Unrestricted	28,622,452	25,034,226	3,588,226
Total Enterprise Funds	<u>\$ 209,185,897</u>	<u>\$ 195,549,134</u>	<u>\$ 13,636,763</u>
Total by Fund			
Liquor	\$ 12,950,872	\$ 13,129,798	\$ (178,926)
Utility	196,235,025	182,419,336	13,815,689
Total Enterprise Funds	<u>\$ 209,185,897</u>	<u>\$ 195,549,134</u>	<u>\$ 13,636,763</u>

In total, the net position of the City’s enterprise funds increased by \$13,636,763 during the year ended December 31, 2022. The Liquor Fund net position decreased by \$178,926. Liquor fund transfers out were \$1.29 million. The increases in both the net investment in capital assets and the net position of the Utility Enterprise Fund were primarily due to capital infrastructure contributions of \$11.5 million received from developers, other government agencies, and the City’s governmental funds.

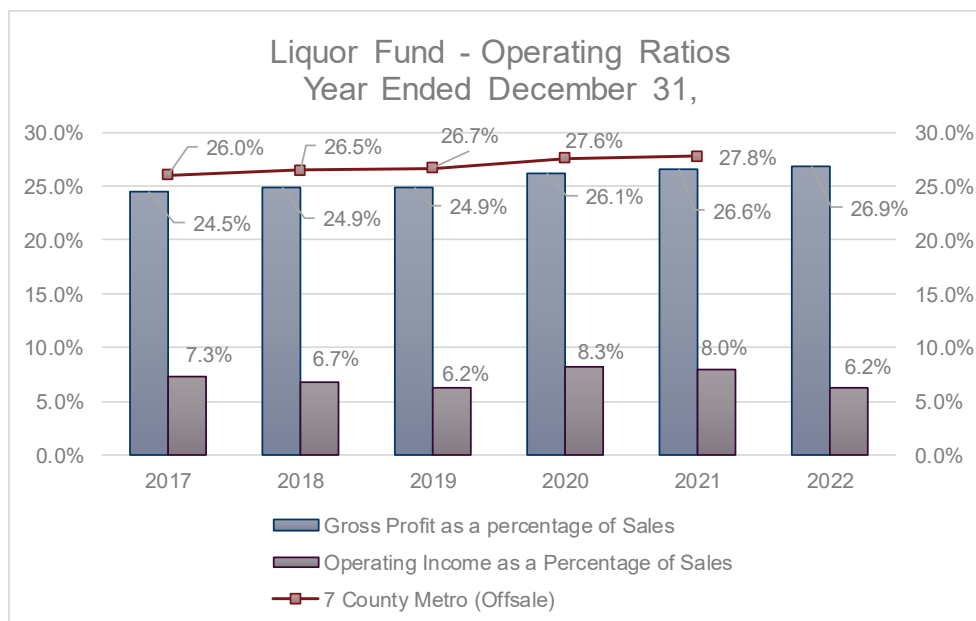
LIQUOR FUND

The following graphs present five years of operating results for the Liquor Fund:



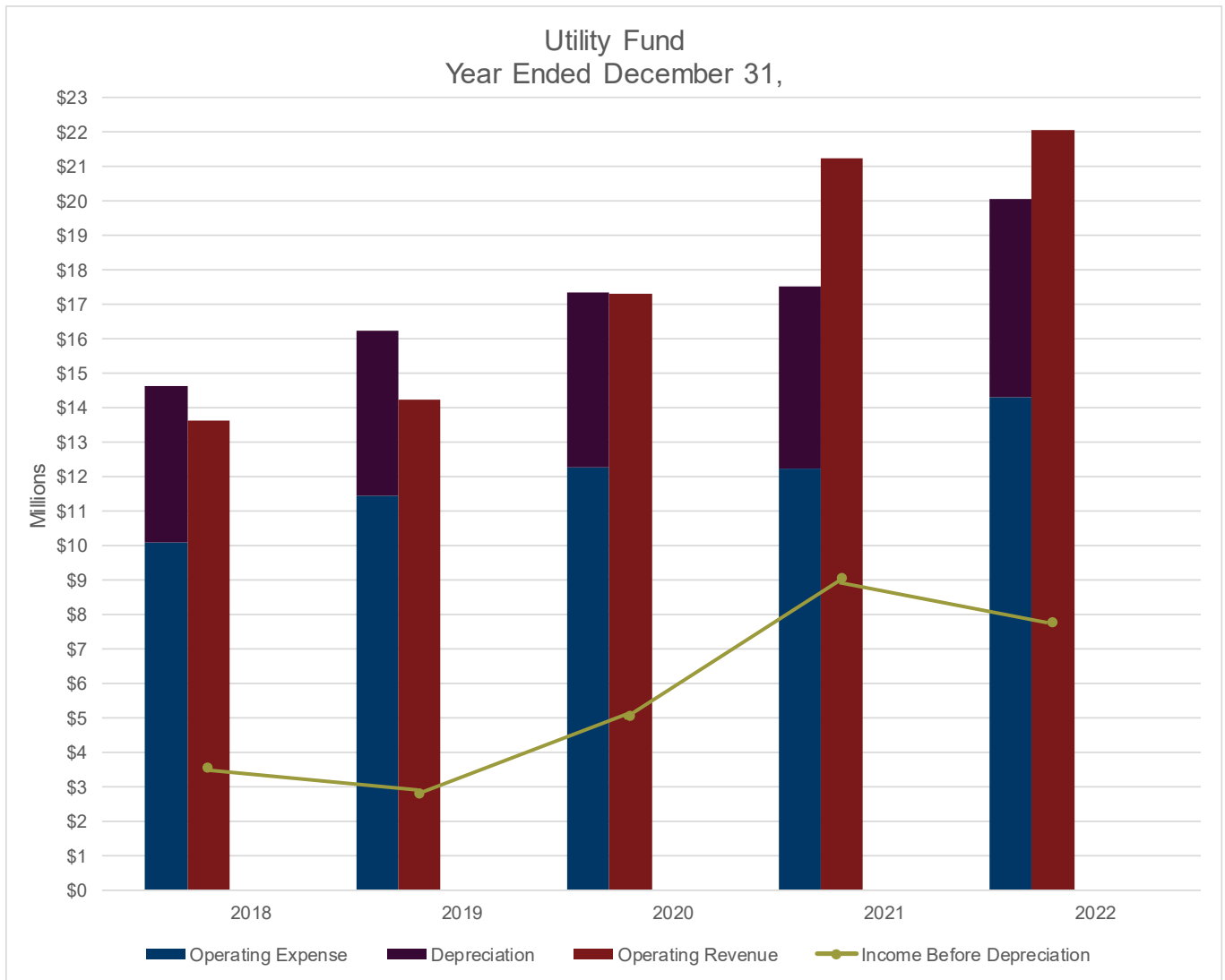
The Liquor Fund ended 2022 with a net position of \$12,950,872, a decrease of \$178,926 from prior year operations. Of liquor store fund net position, \$9,768,443 represents net investment in capital assets leaving an unrestricted net position of \$3,182,429.

Gross liquor sales for 2022 were \$21,894,980, an increase of \$2,211,978 (11.2 percent) from 2021. The Liquor Fund generated a gross profit of \$5,886,419 in 2022, or about 26.9 percent, of gross sales. Operating expenses for 2022 were \$4,533,001, an increase of \$869,000 (23.7 percent) from the prior year. Net operating income for 2022 was \$1,353,418, or about 6.2 percent, of gross sales. The increase in gross sales and the resulting increase in the gross profit ratio shown below were primarily attributable to increased sales volume related to a full year of activity of the City's fourth liquore store which opened in October of 2021. The Liquor Fund also made transfers out of \$1,295,451 to support the General Fund, for debt service, and for various capital needs.



UTILITY FUND

The following graph presents five years of comparative operating results for the City's (water, sewer, street light, and environmental resources) Utility Fund:



The Utility Fund ended 2022 with net position of \$196,235,025, an increase of \$13,815,689 from current year operations. Of the net position balance, \$170,795,002 represents the City's net investment in utility capital assets, leaving \$25,440,023 of unrestricted net position.

Utility Fund operating revenue was \$22,031,929 for 2022, an increase of \$795,968 (3.75 percent), mainly due to increase in water usage and sewer discharge coupled with an increase in rates.

Operating expenses (including depreciation and amortization of \$5,736,581) were \$20,036,268, which represents an increase of \$2,520,694 (14.4 percent). The increase was primarily attributable to increases in the Met Council disposal charges and depreciation.

The Utility Fund also received capital contributions of \$12,445,445 in 2022 from developers, other governmental agencies, and the City's governmental funds.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

In addition to fund-based information, the current reporting model for governmental entities also requires the inclusion of two government-wide financial statements designed to present a clear picture of the City as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering services, including capital assets and long-term liabilities.

STATEMENT OF NET POSITION

The Statement of Net Position essentially tells you what your city owns and owes at a given point in time, the last day of the fiscal year. Theoretically, net position represents the resources the City has leftover to use for providing services after its debts are settled. However, those resources are not always in spendable form, or there may be restrictions on how some of those resources can be used. Therefore, net position is divided into three components: net investment in capital assets, restricted, and unrestricted.

The following table presents the components of City's net position as of December 31, 2022 and 2021, for governmental activities and business-type activities:

	As of December 31,		Increase (Decrease)
	2022	2021	
Net Position			
Governmental Activities			
Net Investment in capital assets	\$ 218,867,352	\$ 183,876,386	\$ 34,990,966
Restricted	82,302,974	69,329,217	12,973,757
Unrestricted	16,378,884	39,709,366	(23,330,482)
Total governmental activities	<u>\$ 317,549,210</u>	<u>\$ 292,914,969</u>	<u>\$ 24,634,241</u>
Business-type activities			
Net Investment in capital assets	\$ 180,563,445	\$ 170,514,908	\$ 10,048,537
Unrestricted	28,938,525	25,479,132	3,459,393
Total business-type activities	<u>209,501,970</u>	<u>195,994,040</u>	<u>13,507,930</u>
Total net position	<u><u>\$ 527,051,180</u></u>	<u><u>\$ 488,909,009</u></u>	<u><u>\$ 38,142,171</u></u>

The total net position of the City increased \$38.1 million during the 2022 fiscal year. Of the increase, \$24.6 million came from governmental activities and \$13.5 million from business-type activities. One of the primary reasons for the increases in both the governmental and business-type activities was the amount of infrastructure contributed by developers and governmental activities during 2022, which totaled about \$24.6 million.

Governmental activities restricted net position remained relatively consistent with the prior year after the net result of several factors, including an increase in special assessments restricted for future debt service; capital grants (contributions); and increases in assets restricted for fire relief pensions.

STATEMENT OF ACTIVITIES

The Statement of Activities tracks the City's yearly revenues and expenses, as well as any other transactions that increase or reduce total net position. These amounts represent the full cost of providing services. The Statement of Activities provides a more comprehensive measure than just the amount of cash that changed hands, as reflected in the fund-based financial statements. This statement includes the cost of supplies used, depreciation of long-lived capital assets, and other accrual-based expenses.

The following table presents the change in the net position of the City for the years ended December 31, 2022 and 2021:

	2022		2021	
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 9,985,355	\$ 7,325,465	\$ (2,659,890)	\$ (2,426,557)
Public safety	19,313,383	7,236,364	(12,077,019)	(12,137,913)
Public works	25,491,908	39,311,605	13,819,697	14,183,610
Parks and recreation	7,762,349	6,401,991	(1,360,358)	(2,005,643)
Interest on long-term debt	3,966,703	-	(3,966,703)	(1,199,275)
Business-type activities				
Liquor	20,652,588	21,903,758	1,251,170	1,619,276
Utility	20,307,370	34,311,485	14,004,115	18,307,296
Total net (expense) revenue	<u>\$ 107,479,656</u>	<u>\$ 116,490,668</u>	9,011,012	16,340,794
General Revenues				
Property taxes and tax increments			36,822,483	35,051,089
Investment earnings			(7,691,324)	(1,201,241)
Total general revenues			<u>29,131,159</u>	<u>33,849,848</u>
Change in net position			<u>38,142,171</u>	<u>50,190,642</u>
Net position , beginning			488,909,009	438,718,367
Net position - ending			<u>\$ 527,051,180</u>	<u>\$ 488,909,009</u>

One of the goals of this statement is to provide a side-by-side comparison to illustrate the difference in the way the City's governmental and business-type operations are financed. The table clearly illustrates the dependence of the City's governmental operations on general revenues such as property taxes and unrestricted grants, while its business-type activities are financed predominately through program revenues.

The net difference in parks and recreation is mainly due to continued economic growth as evidenced by increase in park dedication fees collected.

The net difference in interest on long-term debt is due mainly to the City's currently scheduled interest payments.

LEGISLATIVE UPDATES

With the 2023 legislative session done and with one party in control of the House, Senate, and the Governor's office. There was a lot of movement in St. Paul and several significant things were completed this year. The following is a summary of recent legislation affecting Minnesota cities in 2022/2023 and into the future:

Local Government Aid (LGA) – The Legislature completely overhauled the LGA formula for fiscal year 2014 and thereafter, creating a three-tiered formula that includes separate “need factor” calculations for cities with populations under 2,500, between 2,500 and 10,000, or over 10,000. The new formula simplified the LGA calculation and reduced the volatility of the LGA distribution by limiting the amount it may decline in a given year. Beginning in 2015, any reduction to a city's calculated LGA distribution will be limited to the lesser of \$10 per capita, or 5 percent of their previous year net tax levy. For cities that gain under the new formula, the increases will be distributed proportionate to their unmet need, as determined by the new “need factor” calculations. The state-wide LGA appropriation was \$516.9 million for fiscal 2016 and 2017, and \$534.4 million for fiscal 2018 and thereafter. LGA was increased to \$560.4 million for fiscal 2020, increased to \$564.4 for fiscal year 2021, and increased to \$569. Million for fiscal year 2022. LGA for 2024 is estimated to be an increase of \$80 million to \$644.4 million. Starting in 2022 LGA will be adjusted each year by an inflation factor as defined in State Statute. In addition, the LGA formula was updated this year and made more cities eligible to receive.

Cannabis Legalization – Governor Walz signed into law the legalization and regulation of adult use recreational cannabis. The law provides local units of government the ability regulate the zoning for cannabis businesses, limits the number of retailers to one per every 12,500 in population. It also requires cities to conduct compliance checks and provides 20% of the gross receipts tax revenue from cannabis product sales to be shared equally between cities and counties.

Compensation Cap Repeal – The local government compensation cap was fully repealed effective May 25, 2023. Previously it was limited to 110% of the governor's salary.

Earned Sick and Safe Time – Governor Walz signed into law the requirement that all employers provide one hour of paid sick and safe time for every 30 hours worked for up to 48 hours the first year and 80 hours in ongoing years. The law applies to all employees including parttime and seasonal employees, and has no impact on existing paid leave policies that meet or exceed these requirements.

Elections – Governor Walz signed into a law several changes to elections, these include establishing an 18 day early voting period leading up to election day and replaces the current in-person absentee ballot or “direct balloting” process; establishes automatic voter registration when eligible voters apply for a driver's license or other government documents; and several administrative updates related to mail voting, sample ballot publication, write-in votes, and several other areas.

Open Meeting Law – Governor Walz signed into law a bill that authorizes officials to participate in meeting via interactive technology from a nonpublic location up to three times a year if advised by a health care professional against being in public place for personal or family medical reasons.

Opioid Settlement – In August 2021, the Minnesota Attorney General's Office joined a \$26 billion multistate settlement agreement with certain pharmaceutical distributors and received final approval from the distributors on February 25, 2022. With the first settlement the City of

Lakeville was allocated \$582,715. Since then, a “second wave” of settlements have been approved and the City is estimated to be receiving \$474,302. These settlement payments started in 2022 and will be lasting for several years. Additional information can be found at the following link <https://www.ag.state.mn.us/opioids/>

Omnibus Pension Bill – Governor Walz signed the Omnibus Pension Bill into law and impact several areas that is applicable to cities.

- \$170 million in one-time direct state aid to the PERA – General Employees Retirement Plan.
- \$19.4 million in state aid to the PERA – Police and Fire Plan
- Volunteer fire relief pension impacts:
 - \$5 million allocated from the State’s General Fund to incentivize relief associations to join the PERA – Statewide Volunteer Firefighter Plan.
 - Audit requirements for relief associations increased from \$500,000 to \$750,000 in assets.

Bonding Bill – The legislature approved and Governor Walz approved a \$1.5 billion bonding bill. It provides \$443 million for economic development, \$59.7 million for the environment, \$75 million for housing, \$402 million for transportation, and \$513.5 million for water and wastewater projects.

Topics not making it to the Governor – There were numerous items that did not make it out of the Legislature and to the Governor’s desk for signature. These include but are not limited to: sports gambling, ranked choice voting, modifications to local sales tax requirements, construction materials sales tax exemption, and several related to transportation and infrastructure funding.

ACCOUNTING AND AUDITING UPDATES

GASB Statement No 94 “Public-Private and Public-Public Partnerships and Availability Payment Arrangements” – the primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and provide guidance for accounting and financial reporting for availability payment arrangements (APAs). This Statement is effective for periods beginning after June 15, 2022.

GASB Statement No 96 “Subscription-Based Information Technology Arrangements” – the primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. This Statement is effective for periods beginning after June 15, 2022.

GASB Statement No. 99 “Omnibus 2022” – primary objective of this Statement is to provide some updated guidance and clarifications related to the use of LIBOR by local governments, clarifications related to leases, PPPs, and SBITAs, and clarifications related to financial guarantees and derivative instruments. The effective dates of these vary by topic.

GASB Statement No. 100 “Accounting Changes and Error Corrections-an Amendment of GASB Statement No. 62” – the primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement is effective for periods beginning after June 15, 2023.

GASB Statement No. 101 “Compensated Absences” – the primary objective of this Statements is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement is effective for fiscal periods beginning after June 15, 2023.