

CITY OF LAKEVILLE, MINNESOTA
EXECUTIVE AUDIT SUMMARY
YEAR ENDED DECEMBER 31, 2020



May 17, 2021

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, 2020. 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 17, 2021

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, 2020, 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, 2020:

- We issued an **unmodified** opinion on the City's basic financial statements.
- We reported no deficiencies in the City's internal control over financial reporting that we considered to be material weaknesses or significant deficiencies.
- 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.

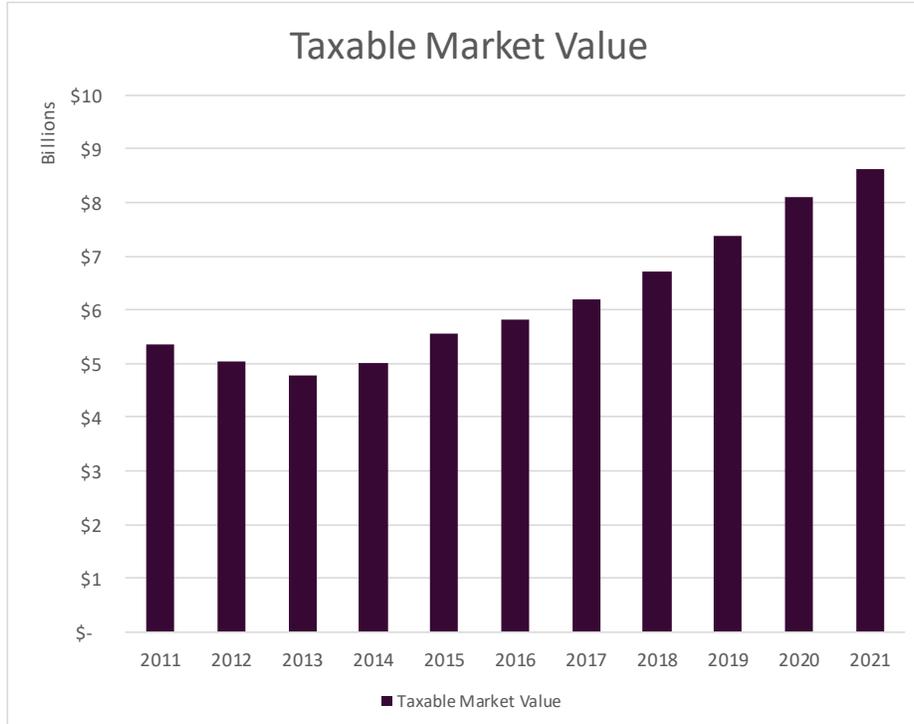
These funds are used to account for the basic services the City provides to all of its citizens, which are financed primarily with property taxes. The governmental fund information in the City's financial statements focuses on budgetary compliance, and the sufficiency of each governmental fund's current 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 2019 fiscal year, local ad valorem property tax levies provided 40.8 percent of the total governmental fund revenues for cities over 2,500 in population, and 37.6 percent for cities under 2,500 in population. Property tax levies certified by Minnesota cities for 2020 increased about 6.8 percent over 2019, compared to an increase of 5.7 percent the prior year. Levy limits were not in place for 2019 or 2020.

The total market value of property in Minnesota cities increased about 4.7 percent for the 2020 levy year, following an increase of 7.1 percent for levy year 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, an increase of 8.5 percent for 2015, and a three-year trend of declining market values for levy years 2011 through 2014.

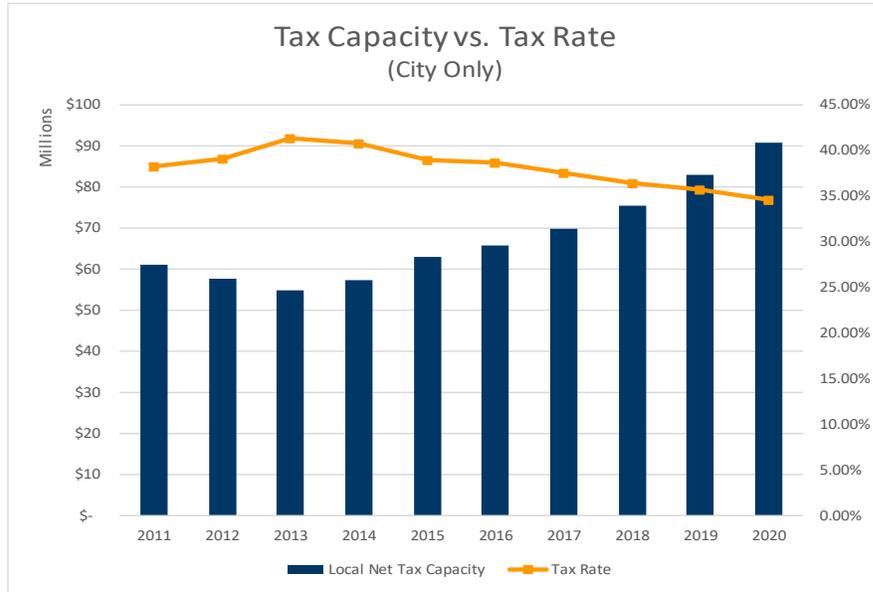
The City's taxable market value increased 10.0 percent for taxes payable in 2019 and 9.9% percent for taxes payable in 2020. The following graph shows the City's changes in taxable market value over the past 10 years plus 2020:



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

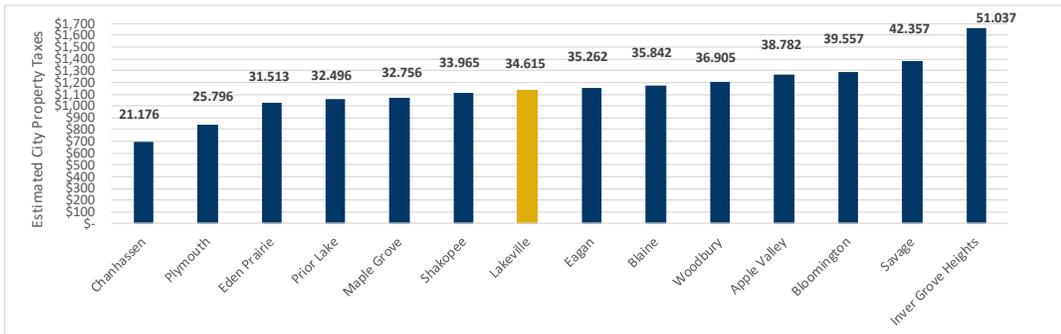
legislative changes to tax rates and exemptions. The City's tax capacity increased 9.7 percent and 9.7 percent for taxes payable in 2020 and 2019, respectively.

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 2019 and 2020 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 2020 tax capacity rate with other comparable cities:



This chart is based on the City of Lakeville's 2020 median home estimated market value of \$317,119 and estimated taxable market value of \$326,300. 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, 2020, presented both by fund balance classification and by fund:

	Fund Balance		Increase (Decrease)
	As of December 31,		
	2020	2019	
Fund Balances of Governmental Funds			
Total by Classification			
Nonspendable	\$ 811,338	\$ 748,231	\$ 63,107
Restricted	41,694,538	36,509,255	5,185,283
Committed	40,441,806	36,171,889	4,269,917
Assigned	1,675,125	749,675	925,450
Unassigned	20,968,601	15,001,050	5,967,551
Total governmental funds	\$ 105,591,408	\$ 89,180,100	\$ 16,411,308
Total by Fund			
General	\$ 24,739,629	\$ 17,203,248	\$ 7,536,381
G.O. Improvement Debt Service	14,466,190	12,656,863	1,809,327
Improvement Construction Capital Projects	8,543,108	6,714,974	1,828,134
Municipal State Aid Capital Projects	2,840,789	2,042,188	798,601
Nonmajor Funds	55,001,692	50,562,827	4,438,865
Total governmental funds	\$ 105,591,408	\$ 89,180,100	\$ 16,411,308

In total, the fund balances of the City's governmental funds increased \$16,411,308 during the year ended December 31, 2020.

The majority of the increase was due to the restricted fund balances of \$5.2 million, committed fund balances of \$4.3 million, and unassigned fund balances of \$6.0 million. 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 2020 bonds. The increase in the committed balance was primarily related to the collection of water and sanitary sewer trunk fees in the capital projects funds.

The increase in unassigned fund balance was also primarily due to the City generating \$6.9 million more than budgeted for general fund revenues as well as the general fund ending the year \$1.6 million under budget on expenditures.

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.

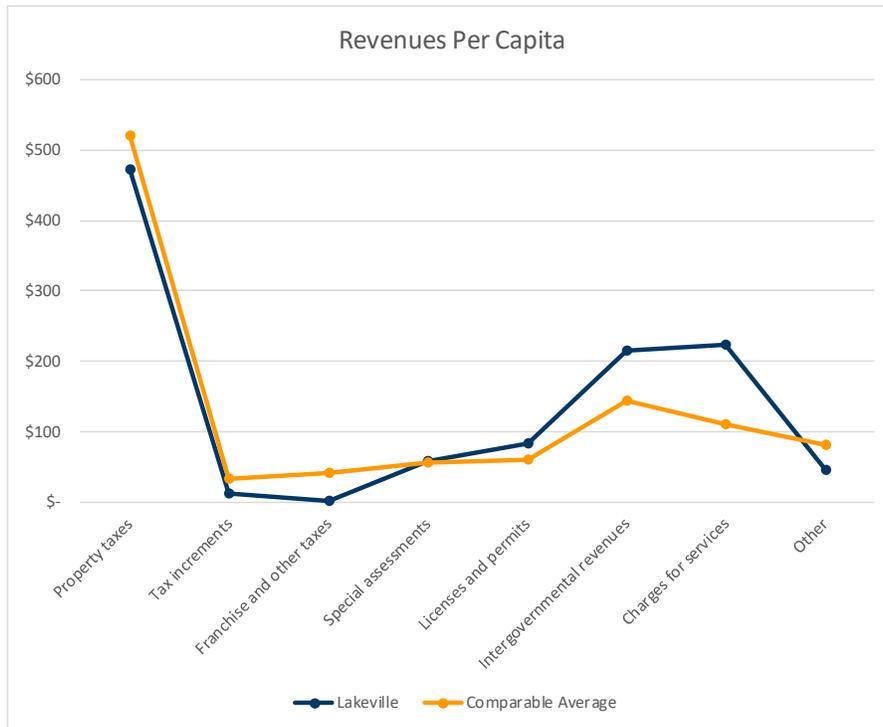
We have designed this section of our management report using per capita data in order to better identify unique or unusual trends and activities of your city. We intend for this type of comparative and trend information to complement, rather than duplicate, information in the Management’s Discussion 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, 2019	2018	2019	2020
Population	20,000 - 100,000	64,334	65,831	68,005
Property taxes	\$ 512	\$ 436	\$ 457	\$ 473
Tax increments	44	9	12	12
Franchise and other taxes	50	5	1	2
Special assessments	53	49	56	58
Licenses and permits	51	61	68	82
Intergovernmental revenues	201	79	135	214
Charges for services	115	184	229	224
Other	79	27	58	45
Total Revenue	1,105	849	1015	1,111

The City’s governmental funds have typically generated less revenue per capita in total than other Minnesota cities in its population class, however in 2020 the City surpassed other similarly sized cities, due mainly to increases in charges for services and intergovernmental revenues during the year.

Total governmental funds revenues were \$75.5 million in 2020, about \$8.7 million (13.0 percent) more than the prior year. On a per capita basis, governmental fund revenue for 2020 was \$96 more than the prior year. Property tax revenue was \$16 per capita higher than the previous year due to a levy increase. Intergovernmental revenues were \$79 per capita more than last year due the City receiving \$4.8 million in federal coronavirus relief funds as well as in conjunction with the level of state-aid fund street maintenance and improvement projects compared to the prior year. Licenses and permits were \$14 per capita more than last year due an increase in economic development and community growth as evidenced by an increase in building permits and connection and area charges collected. Revenue in the “other” category shown above decreased \$13 per capita, due primarily to reduced investment returns both realized and unrealized.

Below is a chart of the City of Lakeville’s 2020 governmental funds revenue per capita as compared to the average per capita revenues for the governmental funds of several comparable cities for the year 2019. 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.

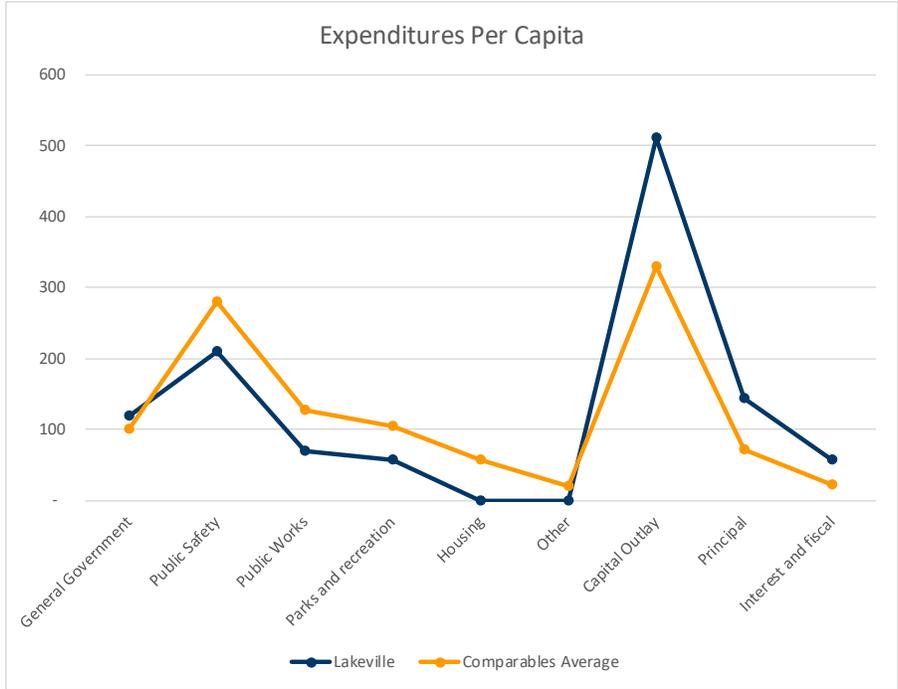
Debt Service – Although the expenditures for debt service may be relatively consistent over the term of the respective debt, the funding source is the important factor. Some debt may be repaid through specific sources such as special assessments or redevelopment funding, while other debt may be repaid 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, 2019	2018	2019	2020
Population	20,000 - 100,000	64,334	65,831	68,005
Current				
General Government	\$ 107	\$ 103	\$ 107	\$ 119
Public Safety	306	203	205	210
Public Works	121	74	73	69
Parks and recreation	102	62	63	57
	<u>636</u>	<u>442</u>	<u>448</u>	<u>454</u>
Capital Outlay				
And construction	348	390	318	512
Debt Service				
Principal	88	162	135	143
Interest and fiscal	28	63	60	57
	<u>115</u>	<u>225</u>	<u>195</u>	<u>200</u>
Total Expenditures	<u>1,099</u>	<u>1,057</u>	<u>961</u>	<u>1,166</u>

Total expenditures in the City's governmental funds for 2020 were \$79.31 million, an increase of \$16.05 million (25.4 percent) from the previous year, or \$205 per capita. The increase was primarily due to capital outlay, which was \$194 per capita more than the previous year, primarily due to several large street and utility improvement projects during 2020, and an increase in general government expenditures of \$12 per capita.

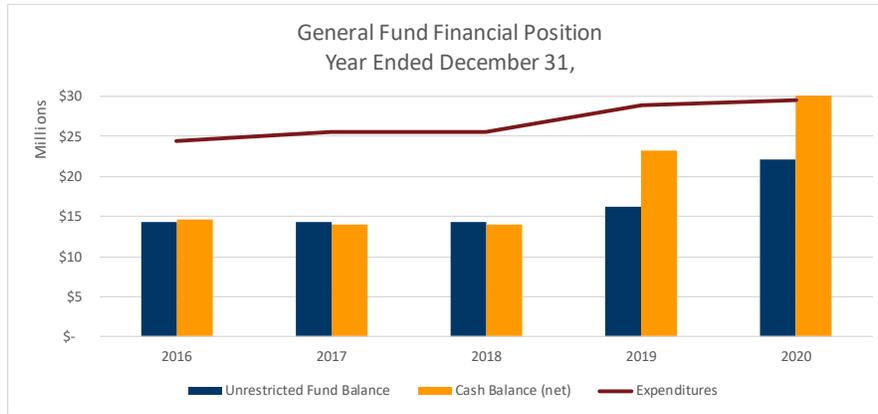
Below is a chart of the City of Lakeville's 2020 governmental funds expenditures per capita as compared to the average per capita expenditures for the governmental funds of several comparable cities for the year 2019.



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.



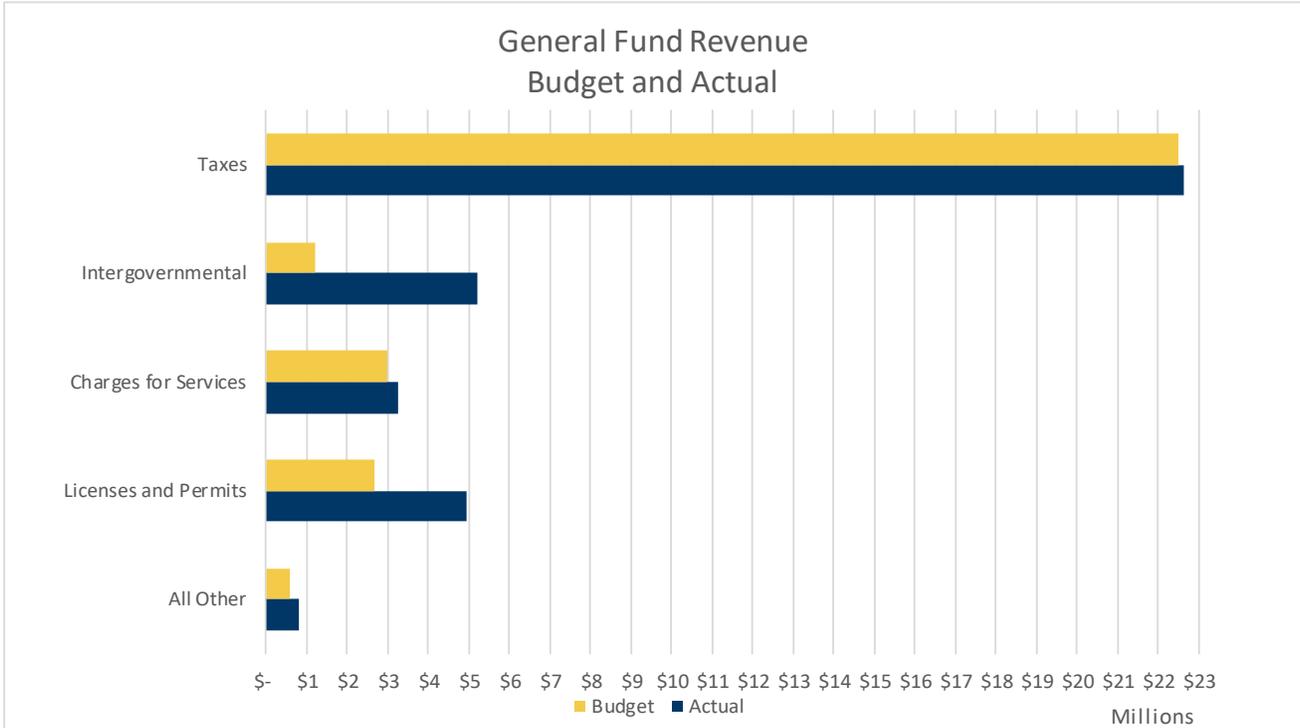
The City's General Fund cash and investments balance at December 31, 2020 was \$33,890,023, an increase of \$10,372,498. Total fund balance at December 31, 2020 was \$24,739,629, which is an increase of \$7,536,381 from the prior year, and \$8,559,978 higher than projected in the City's final budget.

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 62 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 unrestricted fund balance at the end of the 2020 fiscal year represents approximately 74.7 percent of annual expenditures based on 2020 levels, compared to 56.4 percent at the end of the previous year.

The following graph reflects the City's General Fund revenue sources for 2020 compared to budget:

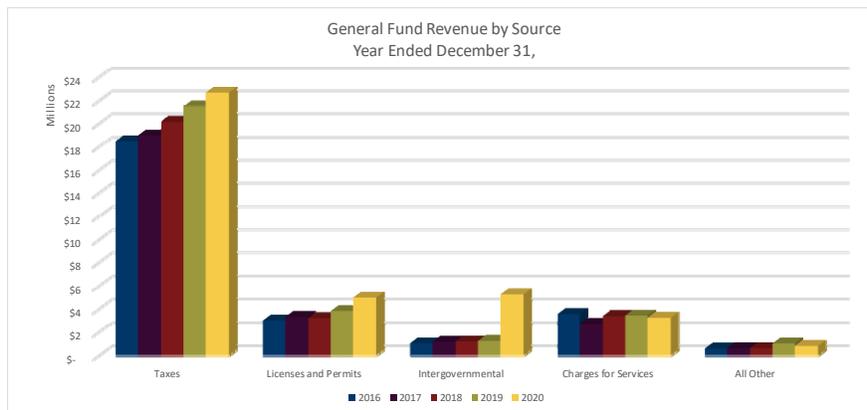


General Fund revenue for 2020 was \$36,827,554, which was \$6,872,615 (22.9 percent) more than budget.

Intergovernmental revenue was over budget \$4,010,894, primarily due to the City's receipt of federal coronavirus relief funds in 2020.

Licenses and permits revenue was over budget by \$2,266,254, primarily due to the number of residential building and construction-related permits issued.

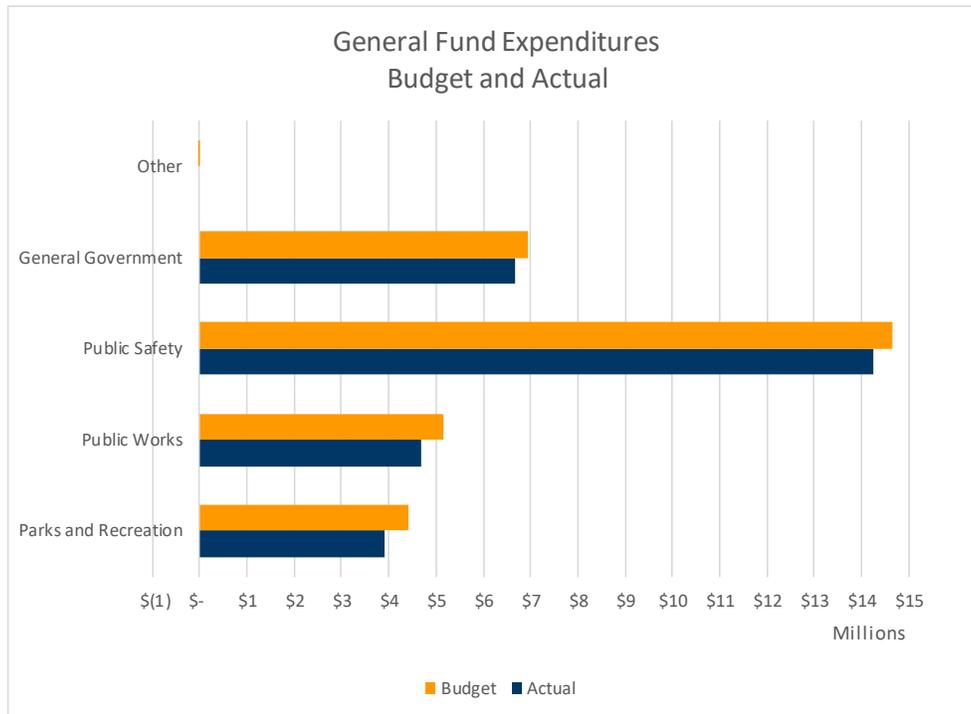
The following graph presents the City's General Fund revenues by source for the last five years. The graph reflects the City's reliance on property taxes and other local sources of revenue.



Overall, General Fund revenues increased \$5,881,525 (19.0 percent) from the previous year. Property tax revenue was \$1,157,377 more than last year due to a 6.95 percent increase in the property tax levy. Intergovernmental revenue increased \$3,989,645 due to the City's receipt of federal coronavirus relief funds in 2020. Revenue from charges for services decreased \$185,638 due primarily to a decrease in public works fees. Licenses and permits increased \$1,130,221 due primarily to an increase in building

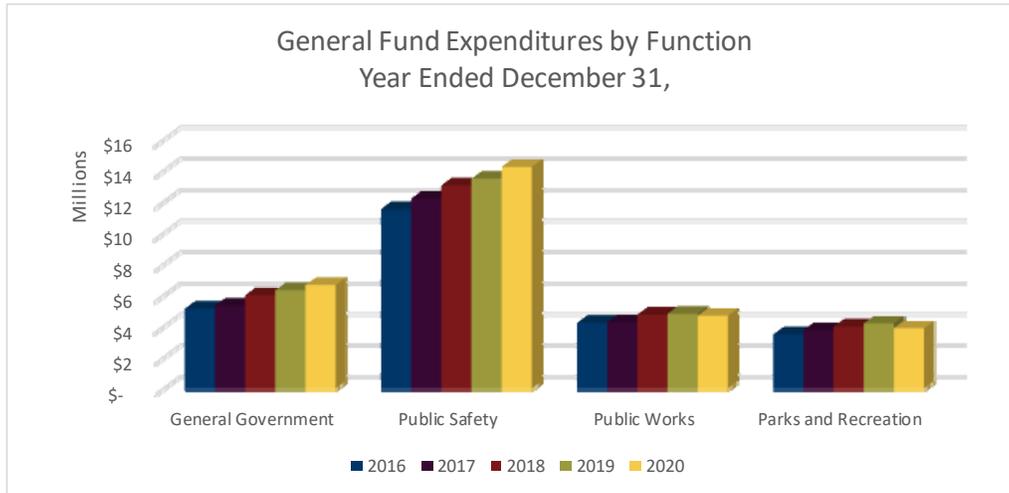
permits during 2020. Finally, revenue in the “all other” category as shown above was \$210,080 lower than last year, primarily due to a decrease in investment returns.

The following graph illustrates the components of General Fund spending for 2020 compared to budget:



Total General Fund expenditures for 2020 were \$29,514,386, which was \$1,642,521 (5.3 percent) under the final budget. General Fund expenditures were under budget in every functional area except other, as shown in the graph above. General government expenditures were \$270,338 under budget, with the largest savings in committees/commissions, community and economic development, general government facilities, finance, and human resources. Public safety expenditures were \$411,984 under budget, primarily in police personnel services and other charges and services. Parks and recreation expenditures were \$530,143 under budget, mainly in park maintenance, recreation, and the arts center. Public works costs were under budget by \$475,995, primarily due to less street maintenance and construction services being needed than planned.

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



Total General Fund expenditures for 2020 were \$660,336 (2.3 percent) higher than the previous year, with the increases primarily occurring in general government and public safety being partially offset by a larger decrease in parks and recreation. The majority of the increase was in personnel costs, which were due to contractual wage increases, inflationary benefit cost increases, and the addition of about four full-time employees compared to the prior year. Parks and recreation expenditures decreased mostly due to the closing of facilities; cancelations of numerous recreational events; and delays in projects due to the COVID-19 pandemic.

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

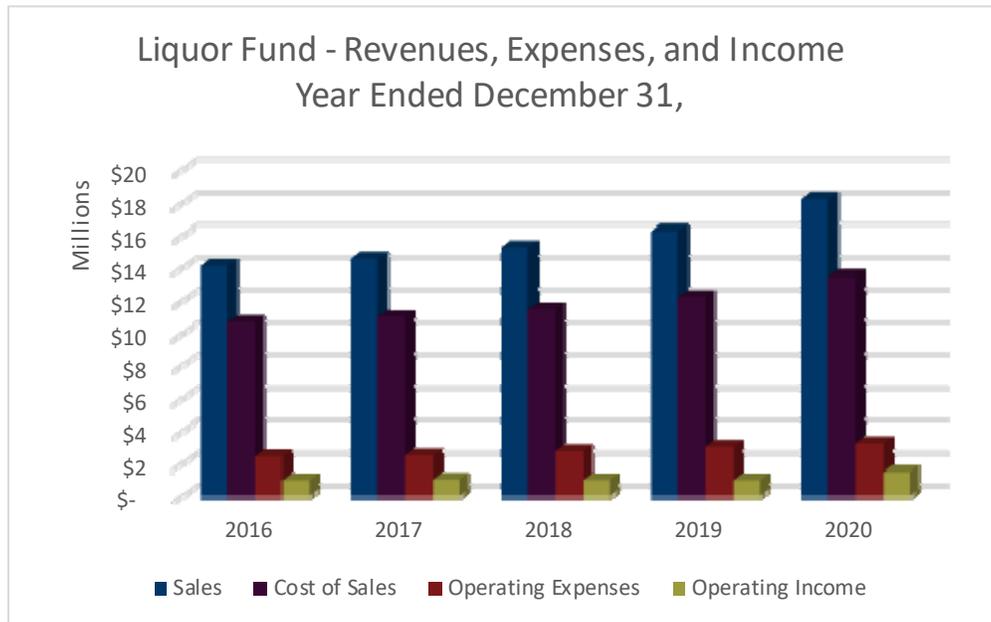
The following table summarizes the changes in the financial position of the City's enterprise funds during the years ended December 31, 2020 and 2019, presented both by classification and by fund:

Enterprise Funds Change in Financial Position			
	Net Position		Increase (Decrease)
	As of December 31,		
	2020	2019	
Net Position of enterprise funds			
Total by classification			
Net Investment in capital assets	\$ 151,132,001	\$ 143,501,608	\$ 7,630,393
Unrestricted	17,940,284	14,885,199	3,055,085
Total Enterprise Funds	\$ 169,072,285	\$ 158,386,807	\$ 10,685,478
Total by Fund			
Liquor	\$ 6,675,288	\$ 6,144,090	\$ 531,198
Utility	162,396,997	152,242,717	10,154,280
Total Enterprise Funds	\$ 169,072,285	\$ 158,386,807	\$ 10,685,478

In total, the net position of the City's enterprise funds increased by \$10,685,478 during the year ended December 31, 2020. The Liquor Fund net position increased by \$531,198, due primarily to a 12.1 percent increase in sales. Transfers out were \$1.13 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 \$11.2 million received from developers, other government agencies, and the City's governmental funds.

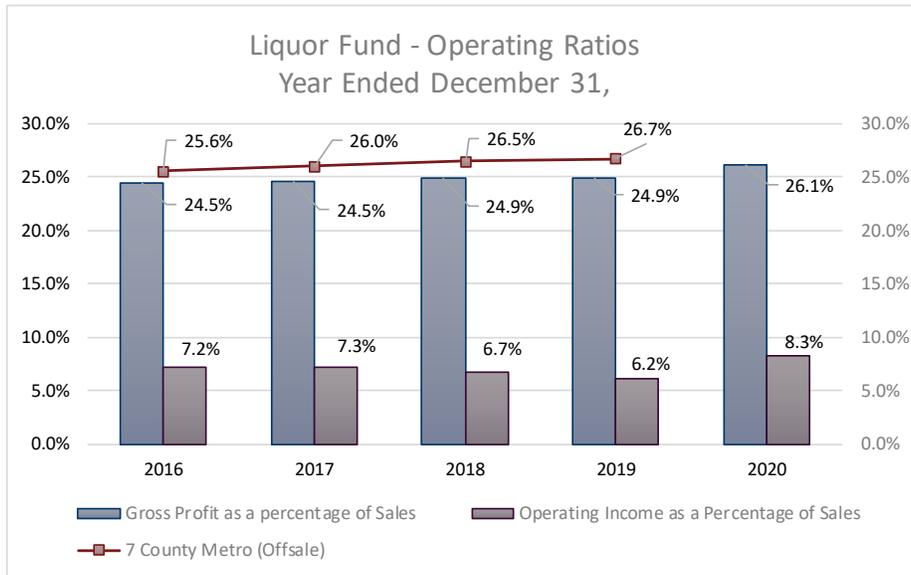
LIQUOR FUND

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



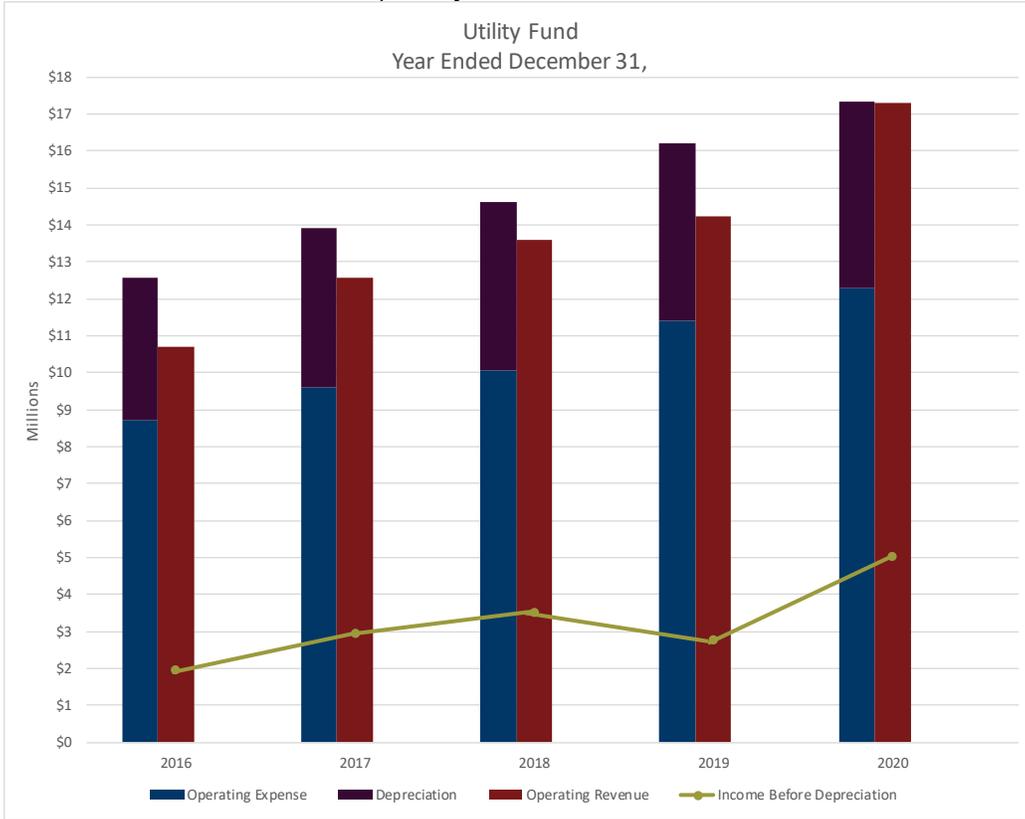
The Liquor Fund ended 2020 with a net position of \$6,675,288, an increase of \$531,198 from current year operations. Of this, \$3,750,789 represents net investment in capital assets leaving an unrestricted net position of \$2,924,499.

Gross liquor sales for 2020 were \$18,262,397, an increase of \$1,973,411 (12.1 percent) from 2019. The Liquor Fund generated a gross profit of \$4,770,925 in 2020, or about 26.1 percent, of gross sales. Operating expenses for 2020 were \$3,263,124, an increase of \$210,677 (6.9 percent) from the prior year. Net operating income for 2020 was \$1,507,801, or about 8.3 percent, of gross sales. The increase in gross sales and the resulting increase in the two operating ratios shown below were primarily attributable to increased sales volume related to the COVID-19 pandemic and continued stabilization during 2020, as the City has faced significant increases to competition in previous years. The Liquor Fund also made transfers out of \$1,126,089 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 2020 with net position of \$162,396,997, an increase of \$10,685,478 from current year operations. Of the net position balance, \$147,381,212 represents the City's net investment in utility capital assets, leaving \$15,015,785 of unrestricted net position.

Utility Fund operating revenue was \$17,308,481 for 2020, an increase of \$3,092,529 (21.8 percent), mainly due to increase in water usage and sewer discharge coupled with an increase in rates.

Operating expenses (including depreciation of \$5,056,218) were \$17,332,434, which represents an increase of \$1,124,171 (6.9 percent). The increase was primarily attributable to increases in other charges and services related to repairs and maintenance, the Met Council disposal charges, and depreciation.

The Utility Fund also received capital contributions of \$11,205,655 in 2020 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, 2020 and 2019, for governmental activities and business-type activities:

	As of December 31,		Increase (Decrease)
	2020	2019	
Net Position			
Governmental Activities			
Net Investment in capital assets	\$ 167,619,658	\$ 154,468,792	\$ 13,150,866
Restricted	69,458,557	56,356,434	13,102,123
Unrestricted	32,249,615	24,178,084	8,071,531
Total governmental activities	<u>\$ 269,327,830</u>	<u>\$ 235,003,310</u>	<u>\$ 34,324,520</u>
Business-type activities			
Net Investment in capital assets	\$ 151,132,001	\$ 143,501,608	\$ 7,630,393
Unrestricted	18,258,536	15,142,309	3,116,227
Total business-type activities	<u>169,390,537</u>	<u>158,643,917</u>	<u>10,746,620</u>
Total net position	<u><u>\$ 438,718,367</u></u>	<u><u>\$ 393,647,227</u></u>	<u><u>\$ 45,071,140</u></u>

The total net position of the City increased \$45.1 million during the 2020 fiscal year. Of the increase, \$34.3 million came from governmental activities and \$10.7 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 2020, which totaled about \$24.9 million.

The increase in governmental activities restricted net position was the 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, 2020 and 2019:

	2020			2019
	Expenses	Program Revenues	Net Change	Net Change
Net (expense) revenue				
Governmental activities				
General government	\$ 8,994,404	\$ 7,640,662	\$ (1,353,742)	\$ (1,181,474)
Public safety	16,063,433	5,739,479	(10,323,954)	(12,919,905)
Public works	22,623,378	38,472,719	15,849,341	12,528,464
Parks and recreation	6,578,004	3,568,794	(3,009,210)	(2,762,122)
Interest on long-term debt	3,147,896	-	(3,147,896)	(3,332,465)
Business-type activities				
Liquor	16,735,031	18,339,207	1,604,176	1,028,306
Utility	17,518,091	27,439,874	9,921,783	5,714,113
Total net (expense) revenue	<u>\$ 91,660,237</u>	<u>\$ 101,200,735</u>	9,540,498	(925,083)
General Revenues				
Property taxes and tax increments			33,033,079	30,897,445
Investment earnings			2,497,563	3,228,725
Total general revenues			<u>35,530,642</u>	<u>34,126,170</u>
Change in net position			<u>45,071,140</u>	<u>33,201,087</u>
Net position , beginning			393,647,227	360,446,140
Net position - ending			<u>\$ 438,718,367</u>	<u>\$ 393,647,227</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 difference in public safety is mainly the result of due to the City's receipt of federal coronavirus relief funds in 2020.

The difference in public works is mainly the result of increased capital contributions, utility connection charges and special assessments during 2020.

LEGISLATIVE UPDATES

With the 2021 legislative session ending for the second straight year being impacted by the COVID-19 Pandemic, there were still some things accomplished as part of the session, while there are many things slated to be addressed during special session in the summer. The following is a summary of recent legislation affecting Minnesota cities in 2020/2021 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, was \$534.4 million for fiscal 2018 and thereafter. LGA was increased to \$560.4 million for fiscal 2020 and increased to \$564.4 for fiscal year 2021. Starting in 2022 LGA will be adjusted each year by an inflation factor as defined in State Statute.

Open Meeting Laws – Governor Walz signed into law an amendment to the session law which removes the remote attendance cap of three times per calendar year while there is a declared emergency under Minnesota Statute, section 12.31 and for sixty days after the removal of the emergency. This change ends 60 days after the end of the public health emergency or July 1, 2021. After July 1, 2021 elected officials are only allowed a three-cap limit for remote attendance to council meetings. After three times they are required to attend in person or from a location that is open and accessible to the public (i.e. public library). In addition, there is now an exemption for military and medical personnel if governmental entities are holding in-person meetings and those elected officials cannot attend in-person.

Remote Monitoring – Law previously allowed governmental entities to charge for attendance when meetings were held remotely. With changes in technology and accessibility, the law was amended to remove this, and governmental entities are no longer allowed to charge for remote attendance of meetings by the public.

ARP Act – The City of Lakeville was allocated \$5.4 million in funding through the American Rescue Plan Act. This funding will be provided in two payments. The first payment should be received by the City in June 2021 once the City has provided the required certifications. The second payment will be available after May 10, 2022. The time frame for using these funds is March 3, 2021 through December 31, 2024. The eligible uses of these funds have been increased from the City’s CARES distribution received during 2020. Some of the allowable uses, now include (but not limited to) premium pay for essential workers, revenue replacement, and investment in water, sewer, and broadband infrastructure. The City should continue to monitor the guidance provided by the U.S. Treasury for changes and clarification in how these funds should be used.

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

- The extension to the PERA employer aid was not included in the bill.
- Service credit purchase for military leave.
- Authorized a study for the enhanced pension benefits for 911 operators.
- Volunteer fire relief pension impacts:

- Authorized a study for the allocation of firefighter supplement aid.
- Incorporated the unanimous recommendations of the State Auditor's Fire Relief Association Working Group.

Bonding Bill – There was no bonding bill approved and signed during the legislative session pre-Pandemic, however one is on the table for consideration during a special session. The State is accepting requests for inclusion on the 2022 Bonding Bill.

Topics not making it to the Governor – There were numerous items that didn't make it out of the Legislature and to the Governor's desk for signature. These include but are not limited to: a bonding bill, budget bill, omnibus tax bill, and a recreational cannabis bill.

ACCOUNTING AND AUDITING UPDATES

GASB Statement No. 87 “Leases” – the primary objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. It will require recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources based on the payment provision of the contract. It also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement is effective for periods beginning after June 15, 2021.

GASB Statement No. 90 “Majority Equity Interests” – the primary objectives of this Statement is to improve the consistency and comparability of reporting of a government’s majority equity interest in a legally separate organization and to improve the relevance of financial information for certain component units. This Statement is effective for periods beginning after December 15, 2019.

GASB Statement No 91 “Conduit Debt Obligations” – the primary objectives of this Statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement is effective for periods beginning after December 15, 2021.

GASB Statement No 92 “Omnibus 2020” – the primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and applications of certain GASB Statements, which include Statement Nos 87, 73, and 84, as well as other practice areas such as intra-entity transfers of assets, asset retirement obligations, public entity risk pools, and terminology used to refer to derivative instruments. This Statement is effective at various dates ranging from immediately to fiscal years beginning after June 15, 2021 based on the underlying Statement that was impacted.

GASB Statement No 93 “Replacement of Interbank Offered Rates” – the primary objective of this Statement is to provide guidance to governments that are using interbank offered rates are part of their derivative instruments, as the interbank offered rates are going to stop being used internationally at the end of 2021. This Statement is effective for periods beginning after June 15, 2021.

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 97 “Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans” – the primary objectives of this Statement are to (1) increase consistency and comparability related to reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would, (2) mitigate costs associated with reporting certain defined contribution plans, and (3) to enhance the relevance consistency and comparability of the accounting and financial reporting for IRC Section 457 deferred compensation plans that meeting the definition of a pension plan and for benefits provided through these plans. This Statement is effective for periods beginning after June 15, 2021.