



## *HEDRA Board Memorandum*

**To:** HEDRA Commissioners  
**From:** Diane Archer – Senior Accountant  
**Date:** 04/07/2017  
**Item:** 2016 HEDRA Financial Report through December 30, 2016 and Funds Available for Loan Program

**Background Information:**

The attached financial report is intended to provide information on 2016 operations year to date, as well as provide an update on resources available for the loan program. The financial information is not audited. Staff will present a final 2016 report in June.

**Attachments:**

- Fund Balance Policy
- 2017 Budget Summary



## *HEDRA Financial Report through December 31, 2016*

### **Executive Summary:**

Overall, HEDRA's 2016 operations are within budget. Significant items of note are as follows:

- The Hastings City Council reallocated its levy, decreasing the amount of the City levy to be allocated to HEDRA. This is expected to drop 2016 cash balances down to approximately early 2015 levels. No negative impact on fund health is anticipated.
- Salaries and benefits expenditures are below budget due to the continued vacancy in the Economic Development Coordinator position.
- The total revolving loan cash balance at December 31, 2016 was approximately \$92,000, with approximately \$11,600 of loans authorized but not yet drawn on.
- Grant expenditures and revenues were not included in the budget resulting in overruns.
- HEDRA's fund balance remains healthy.

### **HEDRA Funds – Combined EDA and HRA**

#### **Assets:**

##### *Cash Balances*

Unrestricted cash balances decreased from December 31, 2015 by approximately \$230,000. The decrease was anticipated. It is primarily a result of the City's levy reallocation of \$167,000 and loans made during the year.

At its June 20, 2016 meeting, the Hastings City Council approved a levy reallocation for the 2016 levy. As a result, the City decreased its levy allocation to HEDRA by \$167,000 for 2016. This change in levy allocation was expected to draw HEDRA's cash balances down to early-2015 levels by the end of 2016.

	<b>12/30/2015</b>	<b>12/30/2016</b>
Unrestricted cash	1,798,031	1,568,403
Dedicated cash - revolving loans	147,283	92,588
<b>Total cash</b>	<b>\$ 1,945,314</b>	<b>\$ 1,660,991</b>

## HEDRA Financial Report as of December 31, 2016

### Revenues and Expenditures:

HEDRA's revenues and expenditures through the first four quarters of 2016 have been consistent with budgeted expectations overall, with some exceptions as discussed below.

	Actual Year to Date Dec 31, 2015	Actual Year to Date Dec 31, 2016	2016 Amended Budget	% of Budget YTD 2016
Property taxes	549,461	412,460	578,186	
Intergovernmental	122,711	151,673	-	
Charges for services	23,402	13,005	20,000	
Investment earnings (loss)	18,312	23,059	24,000	
Other	23,305	168,678	161,548	
<b>Total revenue</b>	<b>\$ 737,191</b>	<b>\$ 768,875</b>	<b>\$ 783,734</b>	<b>98%</b>
Salaries and benefits	98,029	107,339	182,313	
Services and charges	183,830	88,662	134,158	
Supplies	335	-	850	
Miscellaneous	26,675	245,076	-	
Loans Issued	13,217	80,097	-	
<b>Total expenditures</b>	<b>\$ 322,086</b>	<b>\$ 521,174</b>	<b>\$ 317,321</b>	<b>164%</b>

*\*excludes debt service*

*\*\* 2016 Actuals are unaudited*

### Revenues

Property tax payments are received at specific times during the year. As of December 31st, HEDRA all 2016 property tax receipts.

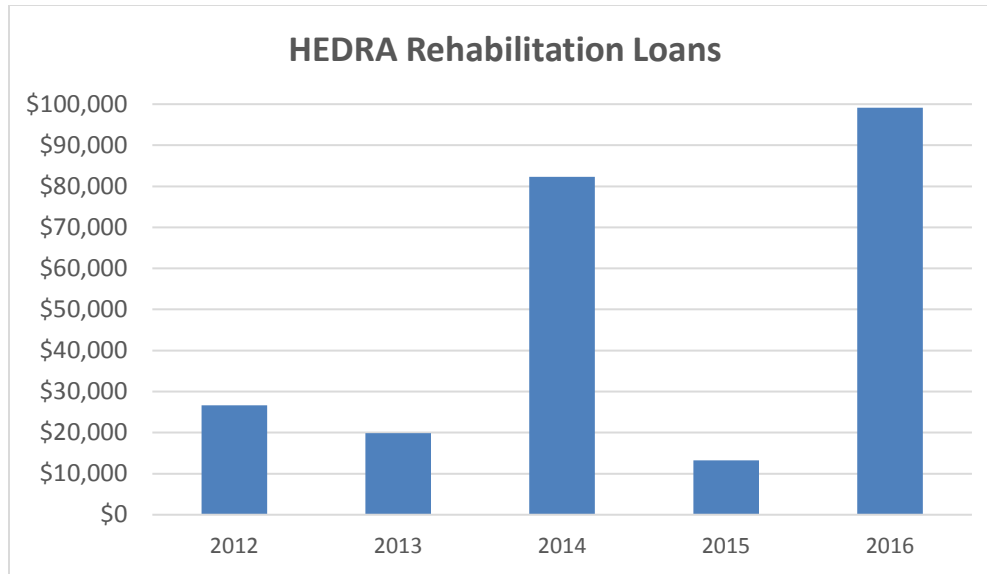
HEDRA was awarded a number of grants which are being drawn on as eligible expenditures are incurred. Neither the grant revenue nor related expenditures are reflected in the annual budget. This creates a budget overrun in expenditures and in revenues.

### Expenses

Salaries and benefits are well below budget due to a vacancy in the new Economic Development Coordinator position.

Loans issued to date reflects draws actually made on approved loans, which is less than the full principal amount of rehabilitation loans that have been authorized for the year. A history of loans issued is found on the following page.

*HEDRA Financial Report as of December 31, 2016*



Averaged over the past 5 years, loan issuance (included those authorized but not yet drawn on) is approximately \$48,000 annually. The current revolving loan dedicated cash balance of \$92,588 will be drawn down to \$81,131 once all authorized loans are issued. Annual loan repayments have averaged \$23,300\* over the past 5 years. \* excluding a large one-time loan repayment in 2014 of \$150,000

The cash flow anticipated if \$100,000 in loans were issued annually follows. The assumptions are repayment begins with one year and the interest rate is 3%. As reflected, additional cash resources will need to be dedicated to any future loan repayment program.

	2017	2018	2019	2020	2021
<b>Issued</b>	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
<b>Paid</b>	\$ 24,000	\$ 37,000	\$ 53,000	\$ 68,580	\$ 82,823
<b>Balance</b>	\$ 16,588	\$ (46,412)	\$ (93,412)	\$ (124,832)	\$ (142,009)

The cash balance available per the City Policy Fund Balance Policy follows. Cash is used as the fund balance includes long term receivables that cannot be converted to cash for loans.

	Cash Balance <u>12/31/2016</u>	Budgeted	Cash Balance Exceeding Threshold	
		Expenditures <u>2017</u>	Minimum (30%)	Available for spend-down (40%)
HEDRA - HRA	471,400	344,819	367,954	333,472
HEDRA - EDA	1,189,591	310,741	1,096,369	1,065,295

**Additional Information**

Further detail of the information presented here may be obtained by contacting the Finance Department. The Finance Manager may be reached for questions at 651-480-2347 or [MLammers@Hastingsmn.gov](mailto:MLammers@Hastingsmn.gov).



The City of Hastings has established a policy to maintain appropriate fund balance levels for each of the City's funds. Fund balances are necessary in order to maintain adequate reserves for cash flow, capital replacements, compensated absences and contingency. This policy is established to provide guidance on how to designate fund balance at the end of each fiscal year. The policy will address two of the City's major types of funds: Governmental Funds and Enterprise Funds.

## GOVERNMENTAL FUNDS

There are five classifications of Governmental Fund Balance:

- Non-spendable-resources that are permanently precluded from conversion to cash. Such items include prepaid items, inventory, land held for resale, and long-term receivables that are not otherwise restricted, committed, assigned, or offset by deferred revenue.
- Restricted-resources that are constrained to a specific purpose by enabling legislation, external parties, or constitutional provisions. Examples include fund balance related to unspent bond proceeds, tax increments, debt service fund balances, and park dedication fees.
- Committed-resources that are constrained by City Council resolution for a specific purpose. Fund balance commitment resolutions must be completed before December 31st to be effective for that fiscal year and remain in effect until the commitment is changed or eliminated by Council resolution.
- Assigned-resources that are intended for a specific purpose by City Administration. This would include any remaining positive fund balance in all funds other than the general fund. The City Finance Director (or designee) shall have the authority to assign fund balance.
- Unassigned-remaining resources which are available for any purpose.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When any combination of committed, assigned, and unassigned resources are available for use, it is the City's policy to use committed resources first, then assigned, then unassigned resources as they are needed. The City will strive to maintain an unassigned fund balance in the Governmental Funds in the range of 30-40% of the subsequent year's budgeted expenditures. Since a significant source of revenues in the Governmental Funds comes from property taxes, maintaining a fund balance that is within that range of operating expenditures ensures that sufficient resources are available to fund basic City functions between property tax settlements. This range is in conformance with guidance from the Office of the State Auditor (OSA).

**Use of Governmental Fund Balances.** Available fund balances will be kept at a minimum of 30% of the subsequent year's budgeted expenses. Balance up to 40% may be retained and will not be used for on-going operations, but could be used for one-time expenses and working capital. Fund balance in excess of 40% can be considered for use for operations in lieu of a levy increase or other revenue raising options. Excess fund balances shall exist for two annual budget periods before the excess funds are budgeted to be drawn down in an operating budget request or transferred to the budget stabilization fund.

## **ENTERPRISE FUNDS**

The Governmental Finance Officers Association recommends 90 days of budgeted expenses to be reserved. The City will strive to maintain a 3% reserve of all the funds fully depreciated assets as of December 31 of each year. Any remaining fund balance after deductions for cash flow needs, dedicated WAC (water fund) revenues, dedicated SAC (sewer fund) revenues, and capital reserve requirements is unrestricted fund balance. This amount can be used at the discretion of the City.

Previously adopted Nov 2011  
Council Adopted: 12-15-2015