

FINANCE COMMISSION MINUTES
Tuesday, May 30, 2023 – 9:30 a.m.
City Hall, Council Chambers, Vero Beach, Florida

PRESENT: Chairman, Robert Jones Members: Gene Waddell, Mark Ashdown, Timothy Dean, Alternate Member, Jay Kramer, and Alternate Member, Gretchen Hanson **Also Present:** Interim Finance Director, Kelley Brost; City Attorney, John Turner; and Senior Administrative Assistant, Rita Chartier

Excused Absence: Kathryn Barton

1. CALL TO ORDER

Today's meeting was called to order at 9:30 a.m.

2. APPROVAL OF MINUTES

A) January 24, 2023

Mr. Dean made a motion to approve the minutes of the January 24, 2023 Finance Commission meeting. Mr. Waddell seconded the motion and it passed unanimously.

3. PUBLIC COMMENT

None

4. FINANCE DIRECTOR'S MATTERS

A) Review of Annual Comprehensive Financial Report for Fiscal Year Ended September 30, 2022

Mr. Jones asked how soon will the second quarter report be out.

Mrs. Kelley Brost, Interim Finance Director, explained it will be ready soon, but they are a little behind. She announced that they did complete the audit on April 20, 2023, which was just before Ms. Cindy Lawson retired as the Finance Director. Since Ms. Lawson's departure, they are actively recruiting for that position and are conducting interviews. She said she just finished up the March trial balance, which is the first six (6) months of the current fiscal year and now she will be working on the second quarter financial analysis. Ideally, it would have been reviewed at today's meeting but they are dealing with resource challenges right now.

Mr. Jones asked if the second quarter report will be ready in a week or so.

Mrs. Brost replied that they might need to give it about a month because she is currently preparing the Annual Budget for the City Manager's review.

Mrs. Brost went over the City's Comprehensive Annual Financial Report for the fiscal year ending September 30, 2022 (on file in the City Clerk's office). She said normally they try to have this done by the end of March, but there were a few things this fiscal year that created extra work, like Hurricane Ian, Hurricane Nicole, and the new government lease accounting standards issued by the Governmental Accounting Standards Board (GASB) 87. She explained that they had to look at all of the City's contractual arrangements because the word "lease" is a broad term. The Airport and Marina create a lot of contractual agreements for the City and it took a fair amount of time to implement GASB 87, but it is done. The hurricanes affect the Accounting Department both before and after the storm, as they work with the Federal Emergency Management Agency (FEMA) to issue claims. This takes a significant amount of time away from working on audit preparations. She said she will be working on the second quarter financial analysis and she will get it out to them as soon as possible. She reported that they received a clean audit from their auditing firm Cherry Bekaert. They have a great relationship with the auditors and they came through with a clean opinion on their internal controls. Additionally, the auditors did not find any weaknesses or misstatements in their financial statements, and they gave them a clean opinion on their grants as well. She referred to the Management's Discussion and Analysis section of the report on pages 15 and 16. She said this section highlights the changes in the financial numbers. She explained that in the fiscal year ending in 2021, the City's pension fund went from being a liability to a net pension asset for the first time, but in 2022 it went back to a liability because of investment losses. She said through the first six (6) months of this fiscal year they are seeing gains in their investments. In the General Fund alone, they are up to over \$1.3 million in their investment earnings through March. However, things can change especially since there is a lot of uncertainty in the market. She explained that when the pension became a liability again it created a pension expense, which is quite sizable. As part of the new lease accounting standards, they will see that the Airport now includes a *long-term receivable* and *deferred inflow* totaling over \$12 million. She asked them to turn to page 29 for the City's total financials. She explained that Governmental Funds are not like Enterprise Funds, which are intended to run more like a business, and their service charges are expected to cover their expenses. She said on page 29, the Governmental Fund activities are translated to look more like an Enterprise Fund so they can be put side by side to show the total view of the City.

Mr. Kramer asked if the GASB 87 recognizes both the liabilities as well as the revenues of the leases.

Mrs. Brost replied yes. For the Airport, they recognize the \$12 million in receivables and they offset it with the deferred inflow. She explained that the City also has leases where they are the lessee instead of the lessor, but most of that is for equipment like printers and copiers. However, the Marina has a submerged land lease where they are the lessee and they will see that under the Marina Fund.

Mr. Dean asked what is making up the balance of the allowance for uncollectable receivables in the Governmental Fund.

Mrs. Brost explained that they had to close down the Electric Enterprise Fund when the City sold the electric utility. They brought over the balances from the electric accounts and that offset it sitting in the Governmental Fund. She said in 2019, the City issued a Resolution to revise its Fund Balance Policy to enable them to set aside funds from the sale as reserves for future needs.

Mrs. Brost briefly went over the Statement of Activities on page 30 and the balance sheet for the Governmental Fund on page 31. She said they still have a very healthy unassigned fund balance of over \$12 million.

Mrs. Hanson asked if the committed funds include all phases of the Marina improvement project or solely Phase I.

Mrs. Brost explained that they originally set aside \$21 million in the Capital Reserve and in the budget City Council appropriated \$2 million of those funds to go towards that project. They have not recorded the actuals because the project is not to that point yet. She referred to page 103, note 17, and said this is where they can see how the fund balances are broken down. She reviewed the Enterprise Fund assets for Water and Sewer, the Marina, the Airport, and Solid Waste on pages 36 and 37 as well as the liabilities for the Enterprise Funds on pages 38 and 39.

Mr. Waddell asked what is the source of the lease receivables at the Airport.

Mrs. Brost said they have tenants that lease property or buildings from the Airport and all of the nonregulated lease income is captured in the receivables. She stated that there are almost 200 leases at the Airport, so there is a high volume of lease activity that generates income.

Mr. Jones asked if “passengers” refers to general aviation passengers or just commercial airline passengers.

Mrs. Brost said they did not define it in that much detail. She explained that some of the leases are hangars or hangar related and some are Fixed Base Operator (FBO) leases and they are considered regulated leases because they are servicing passengers. Regulated leases and leases that are shorter than 12 months are not included in the receivables. She explained that the Airport does not have an operating income, but rather a loss as shown on page 40. That is because the Airport’s rentals and fees do not cover the cost of their operations and depreciation. The Airport relies heavily on grant money to help cover that, so that is why they have a lot of Federal Aviation Administration (FAA) and State of Florida Department of Transportation (FDOT) grants.

Mrs. Hanson asked if the franchise fees they pay are the transfers out.

Mrs. Brost replied that is correct. She stated that the Airport does not transfer 6% back to the General Fund as other funds do.

Mrs. Brost stated that the financial statements and the notes on pages 49 - 106 have a lot of good information for them to review. She said year after year there has not been any significant change in their operations. She briefly discussed the Property Tax Rates chart on page 152, the Principal Property Taxpayers on page 153, the Principal Payers of Water Service on page 155, and the City Employees by Function chart on page 162.

Mr. Jones said he was drawn to the information on pages 142 - 146 because it shows them a multi-year trend.

Mrs. Brost replied yes, the 10-year view clearly shows changes that have taken place in the City, which is noticeable with the sale of the Electric Utility.

Mr. Jones said he is impressed with the Marina's gross revenue, but not so much with their expenses. He assumes that since they cannot report completion on the capital, the Marina is running higher expenses on the design and permitting process that will eventually be partially covered by grants. He believes that once the Marina pays off the loan they should easily produce a significant profit.

Mrs. Brost reported that the Marina is doing well and they increased their fund balance from the year before even in spite of having the pension liability expense added back in. She said from an expense standpoint it is more about the timing of the expenses and that tends to happen on multi-year projects. Their intention is to have some of the expenses covered by grant money that they have not earned yet along with money gifted from the General Fund and an interfund loan. She said the Marina Director raised the rates a little, he tries to maximize the occupancy, he does a really good job managing his accounts, and he is mindful of his expenditures. She referred to page 41 and pointed out that the Marina ended the fiscal year with an operating income of over \$142,000, so they are exceeding their operating expenses and they are putting more into their fund balance.

Mr. Jones said he was expecting more like \$3 million.

Mrs. Brost replied that they had to cover some pension liability expenses that hit all the funds.

Mr. Waddell asked if the boats that are mooring on the south side of the Barber Bridge are in the City.

Mr. Jones responded that the boats are privately owned and anchored on their own. However, some might pay a small fee to use the Marina's showers and dingy dock services. He said he believes most of them are only there for a night or two, but there are also some smaller boats that seem to be stored at that location.

Mr. Waddell inquired about how the City obtains rental income from him.

Mr. Jones replied that they can't because they are anchoring on their own.

Mr. Kramer said they probably could apply to install additional mooring balls and then charge for their use.

Mr. John Turner, City Attorney, explained that the mooring fields are City property, but the area south of the bridge is not within the City's jurisdiction.

Mr. Waddell said he thought they had a submerged land lease at the Marina.

Mr. Turner replied that the land in the Marina, including the moorings, is City controlled land.

Mrs. Brost said they do have a submerged land lease but its coverage is limited.

B) FY 22-23 First Quarter Financial Report and Variance Analysis

Mrs. Brost said she will briefly go over the first quarter report for the current fiscal year (on file in the City Clerk's office). She explained that the first quarter is a fairly distorted view due to the significant influx of ad valorem tax revenue resulting from the 4% discount offered to the taxpayers. Also during the first month, a lot of their payables and expenditures are from the prior fiscal year, so they have lower expenses and greater revenue than normal. They are doing well on their investment earnings as compared to last year, but it is still early and the markets are a little uncertain right now. She provided a brief overview of pages 22 and 23. She said these pages contain a breakdown of the Recreation Department based on cost centers.

Mr. Jones asked how will the transfer of the tennis facility over to the United States Tennis Association (USTA) Florida change things.

Mrs. Brost explained that the generic membership and rental fees will be replaced with a rental fee from USTA and the expenditures will also decrease drastically.

Mrs. Brost stated that the Marina revenues are shown on page 47 and they are also doing very well, despite the project's timing being slightly different than when it was initially budgeted.

Mr. Jones asked if the transfer to the Storm Water Utility was from the COVID funds.

Mrs. Brost replied yes, it was from the American Rescue Plan.

Mr. Kramer asked what is the percentage of income they are receiving from their investments.

Mrs. Brost said she does not have that figure with her but she will follow up on it. She said they budgeted very conservatively this year given the situation from last year and with the continued uncertainty. She explained that the short-term investment with the U.S. Treasury did take a hit. The percentage of gains they are incurring this year versus what they budgeted for is doing better than they expected.

5. CHAIRMAN'S MATTERS

None

6. MEMBER'S MATTERS

None

7. NEXT MEETING DATE

A) August 29, 2023

The next meeting of the Finance Commission is scheduled for August 29, 2023, at 9:30 a.m.

Mrs. Brost announced that the City Council budget workshops will be held on July 17th and 18th.

8. ADJOURNMENT

Today's meeting adjourned at 10:33 a.m.

/rc