Minnesota Association of Watershed Districts (MAWD)
Finance Committee Meeting
April 27, 2022
Via Zoom

Meeting participants: Chair Sherry Davis White, MAWD Board (Minnehaha Creek WD); Region 1 Manager Dennis Kral, (Pelican River WD) and Region 1 Manager Linda Vavra (Bois de Sioux WD); Region 3 Manager Jill Crafton; Region 1 Administrator Tera Guetter, (Pelican River WD); Region 2 Administrator Amber Doschadis (Upper Minnesota River WD); Region 3 Administrator Matt Moore (South Washington WD); and Emily Javens and Jan Voit, MAWD

Absent: Region 2 Manager Wayne Rasche (Heron Lake WD)

WELCOME AND INTRODUCTIONS
The meeting began at 3:03 p.m.

The purpose of the Finance Committee is to manage the finances of MAWD. While a smaller Executive Finance Committee will handle the day-to-day financial decisions, this committee will deal with the larger big picture issues, like preparing an annual budget and making recommendations on the annual dues structure.

The Finance Committee will: analyze past expenditures and financial projections to make a recommendation to the MAWD board for annual dues; prepare an annual budget for submittal to the MAWD Board; and engage the services of a certified accounting firm to process and maintain the financial records of the organization. Later this year, the committee will solicit request for proposals for auditor and lobbyist services.

Dues are payable in January of each year. The MAWD Board can defer, suspend, or reduce dues for a hardship or funding problem.

TASK ONE. Identify the key parameters of a solid dues' formula.
The current dues formula charges watersheds 0.5% of the maximum percent general fund tax levy allowed in MN Statute 103D.905 Subd. 3, not to exceed $7,500. The maximum general fund levy is calculated to be .048% of the Estimated Market Value (EMV) of the watershed, not to exceed $250,000, whichever is less. This formula only applies to rural watershed districts (WDs) because metro WDs can base their maximum levy on the needs identified in their respective Watershed Management Plans rather than the formula identified in statute. Further complicating the matter of finding a fair formula is that metro watershed management organizations (WMOs) do not have levy authority at all. A report was written in 2017 that analyzed different formulas and is provided in this packet. Dues have not been changed since 2018 and during that time, the following concerns have been identified.

- *The current method uses a formula that is not applicable to the metro watersheds.*
- *The dues' structure doesn't recognize there is a second limiting factor in the general fund levy (not to exceed $250,000, whichever is less.)*
- *It is challenging to obtain the EMV for WMOs because it is not automatically generated for us by the state. Data requests are submitted to each county to determine the EMV.*
- *The cap hasn't been increased for four years which results in only the smaller WDs contributing increased revenue for MAWD through dues.*
- *Some watersheds were not formed to protect and restore waterbodies through large-scale projects and their budgets reflect that. Others vary in how much they budget based on political views about taxing and spending.*

DISCUSSION: *Are there other concerns about the current framework being used for calculating dues? If we put this simply, what do we wish to accomplish? "We want to find a dues structure that is _________."*

Discussion was held regarding the following.

- In the metro, there are larger watersheds that don't have to pay more than the smaller ones. Some have a conservative viewpoint when it comes to taxation.
- All watersheds get the same service, just because some are larger, should they pay more?
- In reviewing the strategic plan survey and members needs and wants, it appears there will be a need to increase staffing. It is not possible to determine exactly what funding is needed right now to meet those needs.
- The budget and dues are two separate decisions, but one affects the other. The dues' structure needs to be adaptable and fair without having to change it every year.

In answer to the discussion question, the consensus was to develop a dues structure that is as fair as possible, fairly simple, flexible, and won't be overly volatile from year to year.

TASK TWO. Analyze new ideas against parameters identified in task one.
MAWD members have recently shared some ideas for restructuring dues. Those ideas with examples are shown below.

- *Set a flat rate for all watershed districts.* *Dues = $7500 per member.*
- *Set tiered caps depending on different variables.* *Dues = $7500 metro, $5,000 rural some interest in this having merit (keep formula the same, two caps, some smaller metro WDs increase cap to others to 9,000*
- *Base dues on actual tax levied revenue.* *Dues = 2% of annual tax levied revenue*
- *Base dues on the total annual revenue of a watershed.* *Dues = 2% of annual revenue*
- *Base dues on the watershed's annual budget.* *Dues = 1% of total budget*
- *Use a base amount plus a % value.* *Dues = $2,500 + 1% of tax levy revenue*
- *Adjust the cap annually to consider inflation.* *Dues will increase with cost of living*
- *Keep the same formula.* *Dues = 0.5 x (0.048% of EMV), NTE $7500*
- *Rather than having a cap, implement discounts.* *Dues = $7500, NTE 2% of annual revenue*

The committee discussed ideas and examples. It was determined that:

- None of the options meet absolute fairness for every watershed. Fairness will have to be sacrificed somewhere.
- A set flat rate for all watershed districts makes the dues situation worse.
- Setting tiered caps seems to be fairer than the current system.
- Basing the dues on the actual tax levied or annual revenue would be problematic.
    - Special assessments for stormwater utility or drainage systems or grant funds are for specific purposes and cannot be used to pay dues.
    - While the BWSR calculator for overhead is used by some watersheds, not every one receives BWSR grant funds. Tracking overhead, even if the cost of dues can be factored in, would be cumbersome.
    - WDs in the Red River Valley have access to funds through the Red River Watershed Management Board to implement large-scale projects. Those funds cannot be used to pay dues.

    - Many WDs that are at the $250,000 cap use those funds for administration and project implementation. Their ability to pay dues is restricted by the cap
- Basing dues on the watershed's annual budget and implementing discounts would require each watershed to provide MAWD with a copy of their budget. MAWD would then have to review and determine whether a discount is warranted. This would not be simple.
- Using a base dues amount plus a percentage value would be difficult for small WDs and WMOs.
- Keeping the same formula has fairness concerns.
    - Over the past five years, the average annual change was approximately $100 per year. Pelican River WD saw the largest increase at $1,500. There were six watersheds that had an increase over $1,000.
    - At the current dues rate, Pelican River WD pays 2% of their annual budget. If Minnehaha Creek with an annual budget of $12M paid 2% of their budget, their dues would be $240,000.
    - Adding an inflation factor would allow for flexibility.
- Using a flat rate not to exceed .5 x .0048 of EMV.
    - The not to exceed clause would flip. As years pass, the discount decreases as the EMV increases. Although it is the same formula we use now, it may be more palatable when viewed in a different way.
- Using a weighted formula based on size or other factors seemed difficult to understand or to determine how it would work.
- The metro watersheds represented on the committee believed that their organizations would not object to increased dues.
- Red Lake and Shell Rock River WDs have multi-million budgets, but are still restricted by the $250,000 general operating levy cap. Sauk River and Buffalo-Red River WDs have special legislation that allows them to generate more than the $250,000 limit. Those are outliers that need to be considered.

The chart was completed based on committee discussion to help identify the pros and cons of each option.

ANALYSIS

	Fair?	Simple?	Flexible?	Not Volatile	
Flat rate	No – flat rates make it worse	Yes	Yes (raise rate as needed)	Yes	
Tiered caps	Seems to be fairer	Yes	Yes (raise caps as needed)	Yes	
% of tax levies		No			
% of revenue		No			
% of budget		No			
Base + %	No – hard for very small WDs/WMOS				
Keep existing formula	Has concerns with fairness	Fairly simple	More flexible with inflation factor	Varies	Needs inflation factor
Use weighted formulas based on factors (size?)		No			

TASK THREE. Discuss next steps

Do we have enough information to make a recommendation to the MAWD Board? If not, what additional information is needed? How will the strategic plan impact our recommendation? The final numbers in the formula will need to be determined once a budget is recommended for FY 2023.

MAWD staff will run scenarios that:

- Keep the same formula with a raised cap and inflation factor
- Keep the same formula and setting multiple tiers
- Run scenarios that would illustrate the approximate increase in dues would be if staffing was increased.
- Evaluate outliers (budgetary needs, potential lobbying costs, strategic plan goals)

The committee will meet again in a couple weeks. The goal is to have a recommendation for the MAWD Board so that a new structure can be in place for 2023.

The meeting adjourned at 4:32 p.m.

Meeting notes submitted by
Jan Voit