

**Finance Commission
Meeting Minutes
May 14, 2019**

Roll Call/Announcements

The Finance Commission (FC) meeting was called to order at 6:30 p.m. In lieu of the Chair and Vice-Chair, Finance Director Miller requested staff call the roll.

Commissioners Present: Malcolm McRoberts, Ryan Lee, John Murray, Jack Reif, and Dan Sagisser

Commissioners Absent: Matt Harold, Edwin Hodder

Staff Present: Finance Director Chris Miller

HRIEC Commissioner Lauren Peterson was at the meeting reminding the Commissioners about the Rosefest Parade and asked the Commissioners to take the time to join the HRIEC in the parade. She noted this is for all of the Commission Members and will be walking right behind the City Council so the residents will know who is on the Commissions. She noted the parade is Monday, June 24th at 6:00 p.m. She stated the Commissioners will be getting new T-Shirts and will be giving out candy. She sent around a sign-up sheet for the Commissioners.

Finance Director Miller reviewed recent Council action with the Commission. He noted the new Commission members to the Finance Commission. He stated Commissioner McRoberts will be leaving the Commission, so the City Council is looking to interview and appoint a new member.

Mr. Miller stated the auditor presented the most current City audit to the City Council on May 6, 2019.

Commissioner Reif stated that for publicly traded companies, he thought starting this year that the auditors have to include in their report critical audit matters discussed. He was not sure if this applied to Governmental entities and if it does, he did not think it was applicable until 2020 but was curious whether or not the auditors had said anything about that.

Mr. Miller stated there are different auditing standards for Government then there would be for publicly traded companies. City auditors do talk about some of those differences and there are sections the auditors are required to report about any concerns discovered in the course of their audit and share and report that to the City Council directly.

Commissioner Murray asked if the audit is up on the City website.

Mr. Miller indicated it was.

Mr. Miller stated Commissioner Hodder was not able to make the meeting, but he did send some comments about the various items in the packet and all of the Commissioners should have a copy of that.

Receive Public Comments

Approval of Meeting Minutes

Mr. Miller stated Commissioner Hodder had a change to the minutes.

Commissioner Reif stated line 100, “do” should be changed to: “to.”

Commissioner Murray stated line 116, he was not sure what “in bridge speak” means. He wondered if that was misunderstood.

Mr. Miller thought Commissioner Harrold indicated that was something that is typically used in the engineering trade.

Commissioner Murray stated lines 170-173, is a run-on sentence and did not know if that should be fixed up or not but to him it was slightly confusing. He stated lines 238-239 “He thought the concern he heard from the Council is that these are good examples, but more examples should ~~more examples~~ be listed.” Line 249, he would change “unwielding” to “unwieldy”. Line 313, he would switch “staff gets” to “gets the staff”. Line 438, “Mill” should be “Miller”. Line 496, change “...the way it is written is that ~~way~~ it goes both ways basically.” Line 536, change “...reserves for the...” to “...reserves for a...”

Commissioner Reif moved, seconded by Commissioner Murray to approve the April 9, 2019 meeting minutes as amended. **The motion carried unanimously.**

Receive Finance Commission Recommendations Tracking Report

Mr. Miller stated the tracking report has not been updated in a couple of months. He indicated he will work with Commissioner Harold on getting this updated.

Swearing in of New Commission Members

Mr. Miller swore in Commissioners Lee and Sagisser.

Select A Commission Chair

Finance Director Miller stated City Code Chapter 201.06 requires the Finance Commission to annually select a Chair, Vice-Chair to perform on-going duties; and a representative to serve on the City's Ethics Commission as needed. The Chair and Vice-Chair positions carry the same decision-making privileges as all other members, but they do have some additional administrative duties.

Mr. Miller noted at the last Finance Commission meeting the Commission appointed Commissioner Matt Harold as Vice-Chair and Commissioner John Murray as Representative to the Ethics Commission.

Mr. Miller stated because Commissioner Hodder is not at the meeting and Commissioner McRoberts is exiting there are a couple of choices that could be made. He stated he did talk to Commissioner Hodder offline and was told if no one was comfortable at the meeting serving as the Chair for the next year he would be willing to do so, or the Commission could wait until June to decide when there is a large group.

Commissioner Reif stated he was willing to nominate Commissioner Hodder as Chair of the Commission.

Commissioner Murray thought this nomination should be made face to face.

Mr. Miller thought that would be the most appropriate thing to do. He thought the Commission could get by without a chair for one more month.

Commissioner Murray asked if the Commissioners could introduce themselves a little bit due to there being two new Commission members.

Mr. Miller thought that was a great idea.

Commissioner Sagisser introduced himself to the Commissioners and explained his background to the Commission. He stated he might be asking for terminology help if he does not remember because it has been a few years since he has dealt with things like this.

Commissioner Reif introduced himself to the new Commissioners and described his work history.

Commissioner Murray introduced himself to the new Commissioners and explained his work history, noting he is looking to retire in October.

Commissioner Lee introduced himself to the Commissioners and explained his background to the Commission.

Commissioner McRoberts stated this is his final Finance Commission meeting. He noted he was on the Commission for three years. He reviewed his work history with the Commissioners.

Mr. Miller stated Commissioner McRoberts has been a wonderful contributor for the last three years to the group and a unique perspective on some things with some unique qualities brought to the Finance Commission and will be missed.

Mr. Miller reviewed his role with the Finance Commission and City and his Governmental work history.

Consider Revising the Cash Reserve Target Levels for the Parks & Recreation Fund

Finance Director Miller stated at the March 18, 2019 City Council meeting, the Council directed the Finance Commission (and Parks Commission) to review the cash reserve target levels identified in the City's Operating Fund Cash Reserve Policy for the Parks & Recreation Fund. The Finance Commission briefly discussed this at the April meeting but was held over for continued discussion along with a request for more historical cash-flow analysis on the Fund.

Mr. Miller noted Commissioner Hodder suggested a range of ten to twenty-five percent based on the historical performance was appropriate.

Commissioner McRoberts indicated that when looking at the sheet with each year on there, 2018 was materially more favorable than the others, was that because expenditure was less, or income was higher.

Mr. Miller stated in 2018 the overall cash flow started out higher and stayed higher. This fund has actually been performing pretty well the last couple of years, taking in more revenues than expenses. This fund started off in a better cash position than previous years and that's why it finished in November in a much higher spot than other funds.

Commissioner McRoberts thought if the composite only applied to 2017 and 2018, he thought a different answer would be shown than if the comp. was applied to all five years. He wondered if 2017 and 2018 being better was sustainable because if it is it drives a slightly different view in percentages then it would if going back to 2014 or 2015.

Mr. Miller thought in 2017 and 2018 the City is in pretty good economic times with regard to the participation levels in the Parks and Recreation programs and certainly helped bring a lot of stability in the 2017 and 2018 fiscal years. During an economic downturn it might be a little less.

Commissioner Sagisser asked if there were other sources of income property taxes, like registration fees.

Mr. Miller stated the City calls them program fees and is where participants are coming forward wanting to be in different programs that the Parks and Recreation system offers in the City.

Commissioner Sagisser asked if Mr. Miller had to ballpark the numbers what percentage comes from the program fees and what percentages come from property taxes.

Mr. Miller stated it is pretty close for the Parks and Recreation fund. He noted it is about fifty-five percent property taxes and forty-five percent program fees. He stated there are some interest earnings in there as well but those are minimal.

Commissioner Lee asked if those programs scalable based off of the revenues coming in on a quick basis or does it take quite a while to turn around those programs that are fee funded as opposed to property tax funded. He stated he did not have a good understanding of this but are these optional expenditures that could be cut.

Mr. Miller stated there are some fixed costs. There are some full-time staff and those costs are incorporated in that. Maintaining the fields and amenities in the parks and recreation system are needed as well and a fixed cost. He noted there are some active and passive areas. Long term there is the opportunity to adjust the expenses but a lot of it is variable costs. The department hires a lot of temporary, seasonal employees in the summer and a few in the Winter. As those program participation levels fluctuate there is the opportunity to adjust some of the cash outflows as well.

Commissioner Reif asked if the golf course is a part of the recreation fund.

Mr. Miller stated the golf course is a separate fund and have historically tracked that separately. This is more related the parks programs.

Commissioner Sagisser asked if the golf course was self-funding.

Mr. Miller stated the golf course is not self-funded, there was a point in time that it was but changes in the golf industry over the last ten to fifteen years is affecting everyone out there. It is still self-funded to the standpoint where it is relying on its cash reserves to provide for operations. There were some discussions about moving the golf operations into the broader Parks and Recreation fund operation because at some point it will not be able to sustain itself.

Commissioner Murray stated if the year ends on an average of twenty-seven percent and it drops to twelve percent by May, wouldn't it indicate not to go below fifteen percent floor.

Mr. Miller stated that is his takeaway from this and thought that was referenced in the staff report. He noted that notation is only if the City wants to stay in the black with this fund each month. If the Commission is not bothered with running in the red for a month and borrowing internally it could be lower. From a financial planning standpoint and creating a sustainable operation he would advocate for staying in the black every month.

Commissioner Sagisser stated he would be interested to see the graphs for 2002 and 2008 because that would be helpful for him to understand where it wanders when there is a recession because if the goal is to stop it from going too much in the red he thought that would be helpful to see.

Commissioner Reif stated his thoughts were on the same line as Commissioner Murray to follow the staff recommendation of fifteen percent and seemed like a good number to him as the floor.

Commissioner Murray stated looking at the recreation fund, it tends to be fairly consistent year to year.

Mr. Miller stated what the Commission will see is the cash holdings in general were lower. Coming out of the recession this fund has performed pretty well relatively speaking and will probably look a little different during some of the recession years.

Commissioner McRoberts stated 2016, 2017 and 2018 had revenue primarily in June and November and has obviously changed from prior to that which was July and bounced around a bit. He wondered if June and November were still the primary sources of revenue.

Mr. Miller stated there have been some fluctuation when cash is actually collected from the property tax element. The County gives the City some money in May and some in June and sometimes a variation of which months the money is received and the same thing with November and December.

Commissioner McRoberts stated if the expenditure is not available, as it cannot be deferred a month, then going below fifteen percent starts to look a bit iffy because he thought the chart was getting skewed too much by 2018. He thought if the best years and worst years were taken out of the equation the lowest the City would want to go would be fifteen percent. Unless staff feels 2018 is going to be the new norm.

Commissioner Murray asked if the County is turning money over to the City and June and November some sort of legal requirement or is it policy.

Mr. Miller stated that is a legal requirement. He stated the County needs to balance out the property tax money received. Sometimes the County will give the City an advance on the property tax in order to tie out the numbers with the difference being given in June. He stated recent history is a little more reliable indicator of how things are going now.

Commissioner Murray thought a lot of the expenditures from this fund is for personnel and hard to ask people to wait for a paycheck.

Mr. Miller agreed.

Commissioner McRoberts asked if the Commission was suggesting fifteen and twenty-five percent because he thought there was concern that ten percent was too low.

The Commission concurred.

Commissioner Murray moved, seconded by Commissioner McRoberts to revise the Cash Reserve Target Level for the Parks & Recreation Fund to a range of fifteen to twenty-five percent. **The motion carried unanimously.**

Commissioner Murray asked if the Parks Commission had a chance to review this and make a recommendation.

Mr. Miller stated the Parks Commission has not taken an action on it but has started discussion.

Consider Establishing a Policy for the Cash Reserve (Carry-Forward) Fund

Finance Director Miller stated at the March 18, 2019 City Council meeting; the Council chose to transfer excess cash reserves in selected funds to a separate Cash Reserve Fund as recommended by the Finance Commission. The total amount transferred to the Reserve Fund was \$885,000, however \$456,000 is needed to meet minimum cash reserve target levels in the General Fund at this time. After taking this action, the Council subsequently directed the Finance Commission to consider whether the City should establish a Cash Reserve Fund Policy to provide guidance on future contributions as well as how monies being held in the Reserve Fund would be used.

Commissioner McRoberts stated the last time the Finance Commission talked about what to do with this, the guidance given by the Council was that it was their prerogative and essentially the Finance Commission should stay out of it. He did not know if anything changed but that is one of the reasons why the Commission deliberately left it be.

Commissioner Murray stated it occurred to him that the Council could, in addition to reducing the levy and making appropriate budget or tax adjustments, reduce their internal borrowing and pay things back.

Commissioner McRoberts reviewed from his recollection the previous discussion between the City Council and Commission regarding this.

Commissioner Murray stated he did not see, at this time, a lot wrong with the paragraph in the Policy Implementation section.

Commissioner Reif agreed but going back and looking at the minutes from the March 18th City Council meeting, Mayor Roe did suggest that the Council discuss creating a cash carry forward policy to match some of the other policies and might be a task to revert back to the Finance Commission. The Mayor did suggest that but to Commissioner McRoberts point the Council is the final decider.

Commissioner McRoberts asked Mr. Miller if the Commission should provide guidance as to how the funds should be spent or was the question that wording in this policy does not really give any indication as to prioritization or anything like that.

Mr. Miller stated when the City Council gave this direction to the Finance Commission at the March 18th meeting, this policy was not in front of the Council and is possible the Council knew about it, but this was not necessarily in front of the Council to prompt them. He was not sure the Council was reacting to the highlighted paragraph in the implementation section of the policy.

Commissioner McRoberts stated from his point of view he would turn it back and state it did not seem inadequate given the review of the Finance Commission. If the Council wants the Commission to try to put specific prioritization or other things on there that is fine but not traditionally something the Finance Commission has been involved in.

Commissioner McRoberts thought this item should go back to the City Council asking for clarification.

Mr. Miller stated the City is kind of in new territory since this is the first time the City has had this cash reserve fund and the first time there has been money in the cash reserve fund. He thought the Council was trying to see if the Finance Commission had something else in mind when the recommendation was made to create the fund. Was there anything else the Finance Commission wanted to give to the City Council in terms of guidance or was it just the mechanism of creating this transparent pot of money, so everyone knows what is available.

Commissioner McRoberts thought it was also, at the time, making sure that because each individual fund used to traditionally hold its own access or deficit, there was no way for the City Council to see overall how much was available there fore by at least putting into one swept pot the decision would be able to be made should it go down to pay off some debt or reducing some levy and that was at least publicly available information. That decision would be held in the aggregate rather than by fund. That is where the whole conversation really started.

Commissioner Lee asked if there are any other advantages to the fund. Is it used for any short-term investments or is it held together as a numerical total fund.

Mr. Miller stated all of the money is invested one way or another. Funds are pooled for investment purposes but on paper the money is designated into separate funds. For management purposes the City creates a lot of different pots of money which is a foreign concept to a lot of people.

Commissioner Sagisser asked if this is an accounting practice to track how things are done and adjust for transparency or is there an issue around restricted funds that leads to this.

Mr. Miller showed a chart showing the funds being discussed and stated the Commission is only talking about unrestricted funds so if there are any funds that are legally restricted then those funds are not in play.

Commissioner Murray asked if it would be appropriate to go back to the Council asking if there was anything that needed to be added to the paragraph or something else the City Council wants from the Finance Commission.

Mr. Miller stated that would be fine. The next scheduled joint meeting with the City Council is in September but have other items to work on so the Commission could leave it for the time being.

Review the DRAFT 2020-2039 Capital Improvement Plan

Finance Director Miller stated the Finance Commission is asked to review the Draft 2020-2039 Capital Improvement Plan.

Mr. Miller reviewed the 2020-2039 CIP for the new Commissioners.

Mr. Miller reviewed with the Commission the analysis of Asset Replacement Funds; Property tax supported.

Commissioner Sagisser asked if there were extra maintenance costs that come into play if the OVAL repairs do not get approved for three years.

Mr. Miller stated if the City is not successful with the State, he imagined the City would try again and if still not successful the City would defer some of the capital maintenance, maybe doing some sort of a band-aid type of approach. If it looks like the City will never get State funding for the OVAL for whatever reason, then the Council will have to have a conversation on what the City wants to do whether it be finding the money locally or envision something different.

Mr. Miller continued with the analysis or property tax supported funds.

Commissioner McRoberts stated in the report there is a comment stating the golf course is never going to make any money and it needs to be put into the Parks and Rec. Department. He wondered if that is just delaying the inevitable by putting the golf course into a bigger pot where the costs will get covered.

Mr. Miller stated the brand-new club house the City just built has been moved into the general facilities fund account. He stated because it is a new building, there are not a lot of replacement needs for it. The one thing in the analysis is the maintenance shed.

Commissioner McRoberts stated if the trend seems to be that the attendance is dropping and therefore finding someone private to run it, is it something that should be looked at while there are still assets that do not require maintenance.

Mr. Miller stated the Council entertained conversations along those lines before the decision was made to replace the club house. The City made a 3.2 million investment in a brand new club house and prior to doing that the City entertained discussion on where the golf industry was going and are there alternatives the City might want to use with that site and in the end the City did not want to envision or consider something other than a Municipal Golf Course and the

Council was prepared to use property tax dollars when the decision was made to support it if the need be. He noted that will not be needed in 2020 but starting in 2021 in some level it will be needed. The golf course will survive on its cash reserves for 2019 and probably 2020 but after that it will need some infusion of tax dollars.

Mr. Miller reviewed the analysis of Asset Replacement Funds, fee-supported

Commissioner McRoberts stated when the funding for the strip mall purchase was determined, wasn't it determined it would degrade the License Center funds such that it would be below one hundred percent.

Mr. Miller stated what staff did was give the Council a number to say this is what the City needs to leave behind to sustain the License Center for about ten years and that was a couple of years ago so there is approximately eight years left and then the City needs to start helping fund the License Center. He noted the City used some of the License Center funds to acquire the strip mall, nine hundred thousand dollars cash was used for other purposes not related to the License Center which still left some money to get the License Center by for the next few years until the Council decides what the future of the License Center and the strip mall is.

Mr. Miller reviewed the Funding Strategies and Impacts on Homeowners with the Commission. He noted the following strategies have not been discussed with the City Council yet.

Funding Strategy #1: PIP & PMP Programs

For 2020, re-purpose the expiring \$765,000 City Hall/Maintenance Facility bond Levy to the Park Improvement & Pavement Management Programs.

Funding Strategy #2: Golf Course

For 2020, combine the Golf Course capital needs into the broader General Facilities and Park & Recreation Vehicle & Equipment Funds. Over time, this measure will require additional tax levy dollars, but not until 2021 or later.

Funding Strategy #3: Utility Rate Adjustments

For 2020, adjust the base rates for the water, sanitary sewer, and storm sewer as needed to accommodate planned capital replacement. A more specific recommendation will be forthcoming after the annual utility rate analysis is complete in the fall.

Funding Strategy #4: Information Technology

For 2020, re-purpose \$50,000 in annual tax levy from the IT Capital fund to operations. This is due to the diminished reliance on city-purchased hardware in favor of third-party managed solutions that have proven to be effective at a lower cost.

Funding Strategy #5: Communications & License Center Review

To ensure that the Communications and License Center's capital needs are adequately funded, a strategic review should be made to ensure dedicated revenues are sufficient to meet both capital and operational needs.

Commissioner Reif asked if the City has gotten any monies or has the City asked for any monies from the State for the debacle on the MNLars System.

Mr. Miller stated the City has as have all the other deputy registrars and license centers in the State of Minnesota. There is a bill moving through the Legislature to reimburse with the MNLars debacle and there is broad support on both the Democrats and Republicans in the House and Senate to do that. The City feels pretty good that the money will come back to the City. He stated the figure he saw for Roseville was somewhere in the neighborhood of \$300,000.

Mr. Miller continued with his presentation and showed the Commissioners the funding strategies and impact on homeowners.

Commissioner McRoberts stated he thought the golf course needed to be added into the strategic discussion.

Mr. Miller thought there will be a Council discussion later this year because there are some things the Council will be asked to do to actually roll some of the golf course operation into these other funds.

Commissioner Sagisser asked if there are any cell tower fees that the City gets from the providers.

Mr. Miller stated the City gets about \$450,000 a year and have five towers in the City and right now all of those revenues are dedicated to the City's information technology function. The Staff and some of the supplies needed to support all of the Roseville networks are funded out of that.

Receive Investment Options Presentation from Commissioner Murray

Finance Director Miller stated at the March 12, 2019 Finance Commission meeting; Commissioner Murray indicated a desire to share recent research he had compiled regarding potential new investment options available to the City.

Commissioner Murray presented the Investment Options to the Commission for review and discussion.

Commissioner Lee thought the presentation was very good. He stated he also did something like this with his personal finances. One thing he included in the profile was an increase in the amount he has saved for a critical loss fund in the event there is another recession. He was not sure if that would be something that could be considered to make sure the City has that investment available in case of a large loss due to a recession.

Commissioner Murray stated if running a pension or investment fund or endowment fund it is looked at a little differently that as an individual. It would be looked at longer term. He stated

that even with investments in treasuries and if interest rates go up, which it looks like they will, money can be lost there as well. That is not totally safe.

Commissioner Reif stated because of the recent law change the City probably has not looked at anything like this in the past.

Mr. Miller stated the City has not because it was not available to them.

Commissioner Murray stated he did call the City of Woodbury and the League of Minnesota Cities at Commissioner Hodder's suggestion to see how those entities are coming out, but he has not received a call back. He thought it was a little too early for them to get any valuable feedback on that and have only done it for a year. He thought if the Council was comfortable with this, he would suggest this is a reasonable thing to do for cash management.

Commissioner McRoberts thought if the Council was given three to four scenarios so the Council can gauge what the risk is.

Mr. Miller stated the Commission probably would give to the Council a worst case scenario so the Council can understand what a future Council are going to have to stomach because a bad year is going to happen and will fall on someone's watch and the elected officials will need to be prepared to take the heat for that.

Commissioner Murray stated the City needs the money. He stated he went back, and inflation adjusted what the per capita income is according to the audit report and what it shows on the chart is going from \$53,515 in 2008 to \$49,785 in 2017 household income. Property taxes, which is where the City gets most of the money comes out of income and it gets increasingly hard to get it out of people who are effectively having less and less income.

Commissioner Lee asked if the inflation adjustment that was done a State trend or is it Roseville.

Commissioner Murray thought it was based on County information, the audit report.

Mr. Miller stated this is household income and there has been very little growth of single-family homes but has been an explosion on multi-family.

Mr. Miller stated the trend is slightly down and the City needs to do something and thought it was an acceptable risk.

Mr. Miller asked if the Commission wanted this item to come back to the next meeting to continue the conversation and refine some of this. He stated Commissioner Murray's point is this is a policy and strategy that should transcend election and is something the City has to determine if it is the best thing to do long term.

Identify Discussion Items for the Future Meeting

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Mr. Miller reviewed five items to bring to the June meeting.

Adjourn

Commissioner Reif made a motion, seconded by Commissioner Murray to adjourn. The **motion passed unanimously.**

Meeting adjourned at 8:42 p.m.