


ROSEVILLE
REQUEST FOR COUNCIL ACTION

Date: September 19, 2022
Item No.: 7.b

Department Approval



City Manager Approval



Item Description: Consider Amendments to the Capital Investment Policy

BACKGROUND

Best practices require that a City have various financial policies and periodically review and update those policies. On June 14 and July 12, 2022 the Finance Commission reviewed a revised Capital Investment Policy that was presented by staff. The current policy had not been updated since 2019.

One of the proposed changes is to the Street Infrastructure Replacement Fund. This section of the policy categorized the fund as a permanent fund (page 2 of the policy). Per discussion with the City Manager and the Mayor, they thought this had been previously removed as it has not operated as a permanent fund for many years. The reserve amount noted of \$8-12 million will be removed and replaced with maintaining five to ten years of construction projects in reserves.

On page 3 of the policy, we are striking language that references ‘Exhibit A and B’ and replacing it with language that allows for separate council action with detailed fiscal analysis as it pertains to higher cost capital asset changes. We are also removing these Exhibits which are on pages 5 through 8 of the document. This analysis will be part of the procedures manual and should not be part of a financial policy document.

In the definitions area, Capital Assets cost was increased to \$10,000 (page 3 of the policy) which matched the purchasing policy threshold and matches the accounting procedures for recognition of a capital asset. Items that cost less than \$10,000 are considered minor equipment and categorized as an expenditure when incurred. The definition for Enterprise fund (page 4 of the policy) was updated to remove the 100% fee supported and to insert primarily fee supported, which is the usual language used when defining Enterprise funds.

The Finance Commission approved forwarding the revised draft investment policy in Attachment A to the City Council for adoption at its July 12, 2022 meeting, Attachment C is excerpts of the Finance Commission meeting minutes from June 14th and July 12th.

POLICY OBJECTIVE

The purpose of the City’s Capital Investment Policy is to ensure future capital improvements and replacements are made when needed in a manner which is both fiscally and operationally prudent. The goal of this policy is to provide a stable funding mechanism for the City’s infrastructure by setting aside

32 specific resources on a periodic basis. This will ease the burden on present and future taxpayers,
33 without significant fluctuations in annual property tax levies.

34 **FINANCIAL IMPACTS**

35 Not applicable.

36 **STAFF RECOMMENDATION**

37 Staff recommends approval of the proposed revised capital investment policy as submitted.

38 **REQUESTED COUNCIL ACTION**

39 Motion to approve the attached resolution adopting a revised capital investment policy.

40

Prepared by: Michelle Pietrick, Finance Director

Attachments: A: Draft Revised Capital Investment Policy

B: Resolution adopting Revised Capital Investment Policy

C: Excerpts of Finance Commission Meeting Minutes dated June 14 and July 12, 2022

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Last Updated – 5/6/2019

Revised - 7/12/2022

Capital Investment Policy

The purpose of the City's Capital Investment Policy is to ensure future capital improvements and replacements are made when needed in a manner which is both fiscally and operationally prudent. The Policy also outlines the general process for considering higher-cost capital asset additions or replacement of existing assets that feature substantial changes from their original size, functionality, or purpose.

The goal of this policy is to provide a stable funding mechanism for the City's infrastructure by setting aside specific resources on a periodic basis. This will ease the burden on present and future taxpayers, without significant fluctuations in annual property tax levies.

It is not the intent of the Capital Improvement Plan to fund major new facilities, which have not had the original funding established either through tax increment, general taxes, bonding or other such sources. The replacement funds and corresponding fund interest earnings are expected to be only for replacement purposes.

Scope

All City departments are included in this Policy

Policy

- The City will develop a 20-year Plan for capital investments and update it at least every 2 years.
- All capital investments shall be made in accordance with an adopted Capital Improvement Plan or in conjunction with a strategic or other long-term planning process.
- The City will coordinate development of the capital improvement budget with development of the operating budget. Future operational costs associated with new capital improvements will be projected and included in operating budget forecasts.
- The City will provide ongoing preventative maintenance and upkeep on all its assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs. The City should periodically review and follow industry-recommended replacement schedules for all City capital assets.
- The City will identify the estimated costs and potential funding sources for each capital project proposal before it is submitted to Council for approval.
- The City will determine the least costly financing and acquisition method for all new projects.

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Revised - 7/12/2022

- For future development or redevelopment proposals that require public infrastructure and/or public financing assistance and/or City support services, a fiscal analysis shall be prepared identifying the project sources and uses. The analysis should also demonstrate the costs and benefits of the project. The cost of this analysis shall be borne by the developer.
- The City will establish departmental Vehicle and Equipment Replacement Funds. The City will appropriate monies to them annually to provide for timely replacement of vehicles and equipment. The amount will be maintained at an amount equal to the proportion of useful life expired multiplied by estimated replacement cost.
- The City will establish a Building Capital Fund, and will appropriate funds to it annually to provide for timely preservation of all buildings supported by general governmental funding. Only preservation which meets the capitalization threshold shall be paid for out of this fund. Preservation includes major items such as roof repair and HVAC replacement.
- The City shall establish a Street Infrastructure Replacement Fund to provide for the general replacement of streets and related infrastructure throughout the community. The annual MSA capital allocation, will be included as a part of the source of funds for computing the adequacy of this fund. ~~This fund has been formally categorized by the Council as a permanent fund, whereby the interest proceeds are only used for the stated purpose. The cash reserve amount should remain between \$8-12 million.~~ This fund will maintain five to ten years of construction projects in reserves.
- The City shall establish a Park Capital Fund to provide for the general replacement of parks and related infrastructure throughout the community. The funding should equal the proportion of useful life expired multiplied by estimated replacement cost for all park system assets.
- Within each enterprise fund, the City shall establish a funding mechanism to provide for the general replacement of related infrastructure throughout the community. The funding should equal the proportion of useful life expired multiplied by estimated replacement cost for all enterprise fund system assets.
- From time to time the City Council shall establish additional replacement funds as the need becomes apparent.
- The Finance Commission will annually oversee and report to the City Council a review and analysis of planned capital investments and related reserve balances. The purpose of such analysis will be to gauge the health and sustainability of City reserves related to capital

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investments for the short (1-3 year), medium (4-9 years), and long term (10+ years). It will also take into account related borrowing and repayment costs.

- Capital Replacements should be considered using the following priority guidelines (in order):
 - 1) Projects necessary for the public’s health and safety, or to meet legal mandates.
 - 2) Projects that responsibly preserve or replace existing assets to either extend remaining service life or to create efficiency.
 - 3) Projects that expand existing assets or services in order to benefit the Public Good.
 - 4) Projects that purchase new assets or services in order to benefit the Public Good.
- Higher-cost capital asset additions or replacement of existing assets that feature substantial changes from their original size, functionality, or purpose should be considered ~~using the guidelines included in Exhibit A. For these same assets, a fiscal look-back exercise should also be utilized using the guidelines included in Exhibit B.~~ as separate Council actions with detailed fiscal analysis.

Definitions

Capital assets – Assets which cost ~~\$5,000~~ \$10,000–or more and have a useful life of two or more years.

Capital Improvement Plan – A comprehensive 20 year outlook itemizing all capital assets and their replacement funding requirements. The plan will take into account useful asset lives and salvage values.

Replacement Cost– In today’s dollars, the cost to replace the asset. If it is expected the retired asset will have a salvage value, the estimated salvage value should be deducted from the expected replacement cost.

Asset Life – The number of years which is the asset is in use, also known as the useful life of a capital asset.

Bonding – The amount of debt incurred to obtain capital assets.

Capital Asset Maintenance – Expenditures which protect the City’s investment in capital assets and provide for ongoing upkeep.

Equipment – A tangible capital asset which does not qualify as a vehicle, building, street, or park asset. Examples are mowers, tools, etc.

Last Updated – 5/6/2019

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MSA Capital Allocation – Municipal State Aid is money the City receives from the State to help pay for maintenance of MSA-designated streets. MSA streets are collector or arterial streets that interconnect to other cities or major thoroughfares.

Enterprise Fund – A separate accounting and financial reporting mechanism for municipal services for which ~~is~~ 100% are primarily fee supported. Examples are Water, Sewer, and Golf Course.

General Governmental Fund – A separate accounting and financial reporting mechanism for spending in which a property tax is generally levied. Examples are police, fire, streets, parks and recreation.

Enterprise Fund System Asset – Assets which support enterprise services such as water, sewer, and golf course.

Park System Asset – All assets within city parks excluding buildings. Examples would be trails, equipment, and courts.

Implementation

The City shall use replacement funds to assist in the replacement of equipment, vehicles, and capital building maintenance. New equipment or buildings are to be funded from new dollars, unless they are designated to replace currently owned assets. Funds may be used up to the amount of the replacement funds set aside for that particular asset. Any additional funding shall be from new sources.

City of Roseville Capital Investment Policy

Exhibit A: Fiscal Note

Introduction

~~The City recognizes that higher cost capital asset additions or replacement of existing assets that feature substantial changes from their original size, functionality, or purpose can have a significant impact on the financial sustainability of the City. As a result, the decision to acquire these types of assets should feature added measures to ensure a transparent and public decision-making process is followed. In recognition of these distinct impacts, the following guidelines have been prepared.~~

General Guidelines

~~Each asset addition or asset replacement that features a substantial change as described above in excess of \$500,000, should be accompanied by supporting documentation that includes the following:~~

- ~~▪ Description of the purchase/project/initiative~~
- ~~▪ Narrative that describes the nexus to a strategic or other long-term planning process~~
- ~~▪ Purchase cost~~
- ~~▪ Funding source(s)~~
- ~~▪ *Where applicable, a multi-year financial pro forma^(a) or business plan*~~

~~These supplementary guidelines do not apply towards asset replacements that are included into the Capital Improvement Plan (CIP) and which feature similar functionality or purpose as the original asset. This reflects the fact that these assets are already integrated in the delivery of programs and services.~~

~~In contrast, higher cost (\$500,000 or greater) capital asset additions or substantially-changed asset replacements have greater potential to disrupt asset replacement strategies and have significant impacts on the operating budget moving forward. Therefore, it is recommended that these asset acquisitions be accompanied by a multi-year financial pro forma or business plan that includes supporting documentation that identifies unmet needs, objectives, and action plans.~~

~~^(a)—The financial pro forma would include a list of estimated operating revenues and expenditures (including staffing changes) as well as the assumptions used to calculate those estimates.~~

~~An example of the supporting documentation is included below.~~

City of Roseville Capital Investment Policy

Exhibit A: Fiscal Note

~~SAMPLE SUPPORTING DOCUMENTATION~~

~~Project/Initiative Title: **Document Archival & Retrieval System**~~

~~Department/Division: Central Services~~

~~Estimated Up-Front Cost: \$150,000~~

~~Estimated On-Going Cost: \$38,000 - \$42,700 (see below)~~

~~Funding Source: Central Services Fund (Tax Levy Supported)~~

Description:

~~The City utilizes a variety of systems and procedures for archiving and retrieving stored documents. These documents are housed in a variety of locations including; on-site and off-site electronic file servers, third-party applications, departmental file cabinets, and others. In addition, documents are stored in a variety of formats include .pdf, TIFF, JPEG, and others.~~

~~As a result, the process of archiving and retrieving documents is not only inefficient, but also potentially unreliable especially with documents that are required to be retained for a defined period of time. A centralized, standardized document system based on statutory storage requirements is necessary to address these issues.~~

~~The importance of a successfully designed archival and retrieval capability is referenced in Section 7 of the City of Roseville Business Continuity Plan. The proposed purchase will fulfill this objective.~~

5-Year Financial Pro Forma:

~~The proposed System features a combination of on-site and off-site backup physical storage area networks (SAN) and software licensing; and will include an up-front commitment of \$150,000. The following table identifies the on-going operational costs which will require additional tax levy or other sources.~~

| Revenues | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| Property Tax | \$ - | \$ - | \$ - | \$ - | \$ - |
| Intergovernmental | - | - | - | - | - |
| Licenses & Permits | - | - | - | - | - |
| Other: Tower Rentals | 38,000 | 39,100 | 40,300 | 41,500 | 42,700 |
| Total | \$ 38,000 | \$ 39,100 | \$ 40,300 | \$ 41,500 | \$ 42,700 |
| Expenditures | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> |
| Personnel | \$ - | \$ - | \$ - | \$ - | \$ - |
| Operating & Maintenance | - | - | - | - | - |
| Depreciation (Cost-Recovery) | 28,000 | 28,800 | 29,700 | 30,600 | 31,500 |
| Other: Software Licensing | \$ 10,000 | \$ 10,300 | \$ 10,600 | \$ 10,900 | \$ 11,200 |
| Land/Property Acquisition | - | - | - | - | - |
| Vehicles & Equipment | - | - | - | - | - |
| Total | \$ 38,000 | \$ 39,100 | \$ 40,300 | \$ 41,500 | \$ 42,700 |

City of Roseville Capital Investment Policy

Exhibit A: Fiscal Note

~~The estimates provided in the table above include the following assumptions:~~

- ~~▪ 3% annual increase in software licensing costs to accommodate additional licenses and inflationary impacts.~~
- ~~▪ SAN replacement costs based on a 5-year amortization schedule, original purchase price plus 3% annual inflation.~~

City of Roseville Capital Investment Policy

Exhibit B: Fiscal Review

SAMPLE SUPPORTING DOCUMENTATION

Project/Initiative Title: **Neighborhood Park Buildings**

Description

[Enter brief description of the project/initiative here]

| | Original | Initial Bid | Actual |
|-------------------------------|-----------------|--------------|---------------|
| Construction Cost | <u>Estimate</u> | <u>Award</u> | <u>Amount</u> |
| Estimate | \$ 6,000,000 | \$ 6,500,000 | \$ 6,600,000 |
| \$ Change: Estimate v. Bid | | 500,000 | |
| % Change: Estimate v. Bid | | 8% | |
| \$ Change: Estimate v. Actual | | | 600,000 |
| % Change: Estimate s. Actual | | | 10% |
| | | | |
| Program Revenue | <u>2015</u> | <u>2016</u> | <u>2017</u> |
| Estimate | \$ 15,000 | \$ 35,000 | \$ 50,000 |
| Actual | 43,000 | 66,000 | 95,000 |
| % Over (Under) Estimate | 187% | 89% | 90% |
| | | | |
| Operating Cost | <u>2015</u> | <u>2016</u> | <u>2017</u> |
| Estimate | \$ 100,000 | \$ 130,000 | \$ 135,000 |
| Actual | 92,000 | 122,000 | 128,000 |
| % Under (Over) Estimate | 8% | 6% | 5% |
| | | | |
| Net Cost | <u>2015</u> | <u>2016</u> | <u>2017</u> |
| Estimate | \$ 85,000 | \$ 95,000 | \$ 85,000 |
| Actual | 49,000 | 56,000 | 33,000 |
| | | | |
| Facility Usage | <u>2015</u> | <u>2016</u> | <u>2017</u> |
| Community Engagement | 20 | 25 | 30 |
| City Functions | 175 | 185 | 190 |
| Rentals | 110 | 130 | 155 |
| Total | 305 | 340 | 375 |

Supporting Narrative

[Enter supporting narrative/comments on the metrics presented above here]

**EXTRACT OF MINUTES OF MEETING OF THE
CITY COUNCIL OF THE CITY OF ROSEVILLE**

* * * * *

Pursuant to due call and notice thereof, a regular meeting of the City Council of the City of Roseville, County of Ramsey, Minnesota was duly held on the 19th day of September 2022 at 6:00 p.m.

The following members were present:
and the following were absent:

Member introduced the following resolution and moved its adoption:

RESOLUTION _____

**RESOLUTION AMENDING THE CAPITAL INVESTMENT POLICY
FOR THE CITY OF ROSEVILLE**

WHEREAS, the City Council of the City of Roseville, Minnesota desires to establish budget and financial policies that provide for the sustainability of City programs, services and infrastructure; and

WHEREAS, the City Council of the City of Roseville, Minnesota desires to maintain the City’s strong financial condition; and

WHEREAS, the City Council of the City of Roseville, Minnesota desires to provide appropriate fiscal and budgeting controls.

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Roseville, Minnesota, that the Capital Investment Policy included as Attachment A be adopted and remain in effect until such time that a subsequent policy action is taken.

The motion for the adoption of the foregoing resolution was duly seconded by member and upon a vote being taken thereon, the following voted in favor thereof:

and the following voted against the same:

WHEREUPON, said resolution was declared duly passed and adopted.

State of Minnesota)
) SS
County of Ramsey)

47 I, undersigned, being the duly qualified City Manager of the City of Roseville, County of Ramsey, State
48 of Minnesota, do hereby certify that I have carefully compared the attached and foregoing extract of
49 minutes of a regular meeting of said City Council held on the 19th day of September, 2022, with the
50 original thereof on file in my office.

51
52 WITNESS MY HAND officially as such Manager this 19th day of September, 2022.

53
54
55 _____
56 Patrick Trudgeon
57 City Manager

58
59 Seal
60

1 **Finance Commission -- Excerpt of June 14, 2022 Minutes**

2 **Review Capital Investment Policy**

3 Finance Director Pietrick updated the Commission on the Capital Investment Policy. She noted
4 the policy was last updated in 2019.
5

6
7 Vice Chair Sagisser asked if there was a replacement for how much the cash reserve should
8 remain at for the Street Fund. Ms. Pietrick indicated there is not. The fund is currently supported
9 by levy and Municipal State Aid (MSA) dollars. If the City has a street project that is on an MSA
10 road the City receives dollars. The fund is currently running around five million dollars for a
11 fund balance. She explained as long as the fund can cover the next ten years' worth of projects
12 and the fund is analyzed yearly, that seems like reasonable reserves.
13

14 Vice-Chair Sagisser thought previously the discussion was around making sure the street reserve
15 fund was well financed for a long time so it should be left alone. He noted he did not remember a
16 lot of the details of the conversation but he would be interested to see what the rest of the
17 Commission thinks about that. His opinion is that the desire was to keep at least some reserve
18 and to make sure it is funded out ten years. He would like to change the language to reflect that.
19

20 Commissioner Dahir asked what the ideal amount of money staff would like to have in the fund
21 reserve. He wondered if this should be a set amount or set to a number of years.
22

23 Ms. Pietrick thought the years would be preferable, simply because the City has no idea what
24 costs will be in the future and even with a ten year plan the most reliable number and projects are
25 in year one through five. This is kind of two-fold because staff does examine all of the Capital
26 Funds each year and last year some changes were made to the tax levy. She thought using the
27 years rather than the dollar amount is better because the further out this goes the less is known
28 what a dollar will cover.
29

30 Commissioner Bester asked if staff was working harder than needed by having that extra ten
31 years to go out to twenty years with questionable values. Ms. Pietrick indicated it helps to start
32 seeing potential areas where funding will be needed. Last year was the first year the City
33 Manager and herself sat down with all of the CIP funds and really examined every fund, looking
34 at the chart, and where the fund balance was going to go negative they explored options with the
35 tax levy and brought forward a list of funds that would need help in the short term and the goal
36 was to get the funds positive through ten years, if not longer. This helps to get a handle on what
37 might be happening down the road. Commissioner Bester thought this plan was terrific.
38

39 Ms. Pietrick recommended increasing the Capital Assets definition to ten thousand dollars from
40 the five thousand. She noted this corresponds with the City's purchasing threshold. The
41 Commission agreed. Ms. Pietrick reviewed the Enterprise Fund definition with the Commission.
42 She noted the Enterprise funds are not all one hundred percent fee supported. The golf course
43 gets transfers in. The change would be from "one hundred percent" to "primarily". She
44 explained this was the first discussion on the policy and can be brought back to the next meeting
45 for further discussion when more Commissioners are present. The Commissioners concurred.
46

47 **Finance Commission - Excerpt of July 12, 2022 Minutes**

48

49 **Review Capital Investment Policy**

50 Finance Director Pietrick stated the Capital Investment Policy was last reviewed in May 2019.
51 She reviewed the Capital Investment Policy with the Commission. She noted staff was
52 recommending under the Street Infrastructure Replacement Fund, the section categorizing this as
53 a permanent fund should be removed. Staff further recommends replacing the sentence “interest
54 proceeds for at least 10 years based on needed street replacements.” with “maintain 5-10 years of
55 construction projects in reserves”.

56

57 Chair Davies indicated for clarification the words “permanent fund” should be removed.
58 Commissioner Sagisser preferred ten years for the reserves but was open to other comments.
59 Chair Davies thought 5-10 years was a very big range.

60

61 Ms. Pietrick explained the 5-10 years was staff’s way of trying to come up with a non-dollar
62 amount. Currently the street fund has a positive balance for seventeen years and does not go
63 negative until 2040. Looking at outlying years, which staff cannot commit the Council to
64 increasing the tax revenues in 2024 and beyond, one of the things staff does internally is look at
65 the funds and if the funds are going to go negative staff starts looking at ways to incrementally
66 increase taxes and this fund will need an incremental increase starting in 2024. She noted this
67 could be delayed a little bit but ten years of projects is approximately seventeen million dollars.

68

69 Chair Davies agreed that it is better to put a number of years of projects into the policy.

70

71 Chair Davies asked why Commissioner Sagisser thought five years was too short.
72 Commissioner Sagisser thought that longer is better. It is important to him that he does not want
73 to end up like St. Paul, with assessments all of the time.

74

75 Chair Davies personally thought five years is adequate and having a large range actually gives
76 the opportunity for economic changes.

77

78 Ms. Pietrick indicated the second update is under definitions, the capital asset threshold should
79 be increased to \$10,000 to correspond with the increased purchasing threshold. The third update
80 is under higher-cost capital additions. She recommended removal of the highlighted section and
81 replace with “as separate Council actions with detail fiscal analysis”.

82

83 Ms. Pietrick suggested the final update would be that the Enterprise fund definition should
84 replace the “100%” fee supported with “primarily” fee supported. She stated the capital asset
85 needs of the Golf Course are covered by transfers from the Parks Equipment and Parks
86 Improvement funds. She noted she would also recommend removing Exhibit A and B as these
87 are more regularly found in a procedures document, not a policy document.

88

89 Commissioner Bester moved, seconded by Commissioner Sagisser to recommend the City
90 Council make the recommended changes to the Capital Investment Policy. **The motion carried**
91 **unanimously.**

92