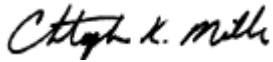


ROSEVILLE
REQUEST FOR COUNCIL ACTION

Date: 03/20/17
Item No.: 7.f

Department Approval



City Manager Approval



Item Description: Receive Finance Commission Recommendations

BACKGROUND

At the August 15, 2016 Joint City Council–Finance Commission meeting; the City Council directed the Finance Commission to review among other areas:

- Consider revising City Code Chapter 208: Finance Commission roles and responsibilities
- Continue reviewing the Capital Improvement Plan (CIP)

Over the past several months, the Finance Commission has reviewed these two areas and has specific recommendations for the Council to consider. Each recommendation is highlighted below.

Revision to City Code Chapter 208

The Finance Commission recommended that section 208.02(f) be amended to eliminate the sentence: “. . . review the adequacy and effectiveness of financial controls . . .” given that this responsibility is already performed by an independent auditor in accordance with governmental accounting and auditing standards and auditing procedures prescribed by the Minnesota State Auditor’s Office.

A marked up and highlighted version of City Code Chapter 208 containing the Finance Commission recommendation is included in *Attachment A*.

Establishment of a CIP Priority Ranking System

The Finance Commission further recommends that the Council establish a priority ranking system for the CIP given the on-going financial challenges in maintaining city assets. The Finance Commission further recommends that these priority rankings be incorporated into a revised Capital Investment Policy. A marked up and highlighted version of the Policy is included in *Attachment B*.

The Commission asks the Council to review these recommendations for eventual adoption by the Council. Members of the Commission will be available at the meeting to speak to the request.

POLICY OBJECTIVE

Not applicable.

FINANCIAL IMPACTS

Not applicable.

32 **STAFF RECOMMENDATION**

33 Not applicable.

34 **REQUESTED COUNCIL ACTION**

35 For information purposes only. No formal Council action is required.

36

37

Prepared by: Chris Miller, Finance Director

Attachments: A: Markup version of City Code Chapter 208

B: Markup version of the Capital Investment Policy

38

39

**CHAPTER 208
FINANCE COMMISSION**

SECTION:

208.01: Establishment and Membership

208.02: Scope, Duties and Functions

208.01: ESTABLISHMENT AND MEMBERSHIP:

There is established a Finance Commission of the City which shall consist of seven members appointed by the City Council and which shall be subject to Chapter 201 of the City Code. A minimum of three members shall have financial management experience or training.

208.02: SCOPE, DUTIES AND FUNCTIONS:

The City Council has created the Finance Commission to serve in an advisory capacity regarding the City’s financial matters to make recommendations that will provide clarity, transparency and accessibility of financial information, to review policies and offer strategies for improved budgeting and funding for present-day operations and future needs, and to review the city’s financial affairs.

The duties and functions of the Commission may include:

- A. Advise on short and long-term financial policy matters, including but not limited to cash reserve funds, budgets, financing, and capital replacement policies.
- B. Review and recommend funding strategies for the Capital Improvement Plan.
- C. Review budget goals, including but not limited to local tax rate and tax levy targets, management of enterprise funds, and spending levels.
- D. Review and recommend standardized budget and financial reporting methods and tools to make financial communications and budget information more transparent, comprehensible, and accessible to the public.
- E. Review and recommend the annual timeline and process for creating City budgets.
- F. Review the annual financial information, the annual audit report and management letter, **the adequacy and effectiveness of financial controls**, and the city’s investment policy and portfolio. (Ord. 1481, 07-20-2015).

Capital Investment Policy

The purpose of the City's Capital Investment Policy is to ensure future capital improvements, maintenance, 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 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 City Council 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 departments and City funds are included in the 20-Year Capital Improvement Plan (CIP). The CIP identifies the timing and financing of all capital items.

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.
- ❑ 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.
- ❑ 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.

- 121 ❑ The City will establish departmental Vehicle and Equipment Replacement Funds. The City will
122 appropriate monies to them annually to provide for timely replacement of vehicles and equipment.
123 The amount will be maintained at an amount equal to the proportion of useful life expired
124 multiplied by estimated replacement cost.
- 125
- 126 ❑ The City will establish a Building Capital Maintenance Fund, and will appropriate funds to it
127 annually to provide for timely maintenance of all buildings supported by general governmental
128 funding. Only maintenance which meets the capitalization threshold shall be paid for out of this
129 fund. Maintenance includes major items such as roof repair and HVAC replacement.
- 130
- 131 ❑ The City shall establish a Street Infrastructure Replacement Fund to provide for the general
132 replacement of streets and related infrastructure throughout the community. The annual MSA
133 capital allocation, will be included as a part of the source of funds for computing the adequacy of
134 this fund. This fund has been formally categorized by the Council as a permanent fund, whereby
135 the interest proceeds are only used for the stated purpose. The cash reserve amount should remain
136 between \$8-12 million.
- 137
- 138 ❑ The City shall establish a Park Capital Maintenance Fund to provide for the general replacement
139 of parks and related infrastructure throughout the community. The funding should equal the
140 proportion of useful life expired multiplied by estimated replacement cost for all park system
141 assets.
- 142
- 143 ❑ Within each enterprise fund, the City shall establish a funding mechanism to provide for the
144 general replacement of related infrastructure throughout the community. The funding should
145 equal the proportion of useful life expired multiplied by estimated replacement cost for all
146 enterprise fund system assets.
- 147
- 148 ❑ From time to time the City Council shall establish additional replacement funds as the need
149 becomes apparent.
- 150
- 151 ❑ The Finance Commission will annually oversee and report to the City Council a review and
152 analysis of planned capital investments and related reserve balances. The purpose of such analysis
153 will be to gauge the health and sustainability of City reserves related to capital investments for
154 the short (1-3 year), medium (4-9 years), and long term (10+ years). It will also take into account
155 related borrowing and repayment costs.
- 156

157 ❑ Capital Replacements should be considered using the following priority rankings (in order):

- 158 1. Projects necessary for public health and safety, or to meet legal mandates.
- 159 2. Projects that responsibly maintain existing assets to either extend remaining service life
160 or to create efficiency.
- 161 3. Projects that expand existing assets or services in order to benefit the Public Good.
- 162 4. Projects that purchase new assets or services in order to benefit the Public Good.

164 Definitions

165
166 Capital assets – Assets which cost \$5,000 or more and have a useful life of two or more years.

167
168 Capital Improvement Plan – A comprehensive 20 year outlook itemizing all capital assets and their
169 replacement funding requirements. The plan will take into account useful asset lives and salvage
170 values.

171
172 Replacement Cost– In today’s dollars, the cost to replace the asset. If it is expected the retired asset
173 will have a salvage value, the estimated salvage value should be deducted from the expected
174 replacement cost.

175
176 Asset Life – The number of years which is the asset is in use, also known as the useful life of a capital
177 asset.

178
179 Bonding – The amount of debt incurred to obtain capital assets.

180
181 Capital Asset Maintenance – Expenditures which protect the City’s investment in capital assets and
182 provide for ongoing upkeep.

183
184 Equipment – A tangible capital asset which does not qualify as a vehicle, building, street, or park
185 asset. Examples are mowers, tools, etc.

186
187 MSA Capital Allocation – Municipal State Aid is money the City receives from the State to help pay
188 for maintenance of MSA-designated streets. MSA streets are collector or arterial streets that
189 interconnect to other cities or major thoroughfares.

190
191 Enterprise Fund – A separate accounting and financial reporting mechanism for municipal services
192 for which is 100% fee supported. Examples are Water, Sewer, and Golf Course.

193
194 General Governmental Fund – A separate accounting and financial reporting mechanism for spending
195 in which a property tax is generally levied. Examples are police, fire, streets, parks and recreation.

196
197 Enterprise Fund System Asset – Assets which support enterprise services such as water, sewer, and
198 golf course.

199
200 Park System Asset – All assets within city parks excluding buildings. Examples would be trails,
201 equipment, and courts.

202
203 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.