


ROSEVILLE
REQUEST FOR COUNCIL ACTION

Date: January 30, 2023
Item No.: 7.e

Department Approval



City Manager Approval



Item Description: Approve payoff of interfund loan between PMP and Shopping Center Funds

BACKGROUND

In 2018 the City purchased the shopping center at 2719 Lexington Avenue. To accomplish this purchase, \$1.5 million of funds were loaned from the Pavement Management (PMP) fund and a receivable was recorded. The sale of the former fire station on Fairview was seen as a way to repay this loan, hence the interfund loan receivable and payable were recorded. The former fire station was sold and \$1,233,171.30 was received on February 28, 2022 and the internal loan has been reduced to a remaining balance of \$266,828.70.

While the PMP fund currently has cash, it is not receiving less interest earnings on the cash balance due to this interfund loan receivable. Staff felt it was a good idea to start the conversation on how to eliminate this loan.

Staff discussed options for paying off the interfund loan with the Finance Commission on May 10th, where the item was tabled until later in the year. At the November 15th Finance Commission, staff discussed some alternatives to eliminate this interfund loan which included:

- Transfer funds from the Excess Cash Reserve fund to the PMP fund
- Transfer funds from the General Fund to the PMP fund
- Do nothing until the PMP fund needs the cash

The Finance Commission recommended transferring funds from the Excess Cash Reserve fund to the PMP fund to close this interfund loan. Chair Wanda Davies will provide the rationale behind the Commission recommendation. The Excess Cash Reserve fund has a current estimated balance of \$380,446 after setting aside amounts pledged in the 2023 budget process (Parks & Rec Vehicle fund and Fuel Increases).

POLICY OBJECTIVE

To eliminate the interfund loan receivable in the Pavement Management (PMP) Fund to optimize interest earnings in the PMP fund.

BUDGET IMPLICATIONS

The Excess Cash Reserve Fund has sufficient cash available to repay this interfund loan.

RACIAL EQUITY IMPACT SUMMARY

There is no equity impact

32 **STAFF RECOMMENDATION**

33 Staff recommends the Council approve eliminating the interfund loan receivable between the PMP and
34 Shopping Center Funds by tapping the excess cash reserve fund to repay this loan.

35 **REQUESTED COUNCIL ACTION**

36 Motion to approve repayment of the interfund loan between the PMP and Shopping Center funds by
37 transferring money from the Excess Cash Reserve Fund to repay this loan.

38 Prepared by: Michelle Pietrick, Finance Director
Attachments: A: Excerpt of Finance Commission minutes May 10, 2022 and November 15, 2022

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1 **Finance Commission –Excerpt of May 10, 2022 Minutes**

2
3 **Discussion on Options Regarding Internal Loan**

4
5 Finance Director Pietrick stated the Commission is asked to discuss alternatives for addressing
6 the remaining interfund loan balance. She noted the internal loan has a remaining balance of
7 \$266,828.70.

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9 Chair Davies asked if the original plan was that the profit from the License Center would pay off
10 this loan.

11
12 Ms. Pietrick indicated that was not the plan. She indicated the License Center has been paying
13 rent to the fund but she did not see any evidence that profit from the License Center was going to
14 repay this loan.

15
16 Commissioner Bester asked if rents from the License Center provide enough cash flow to cover
17 the expenses.

18
19 Ms. Pietrick indicated it did at this time but not enough to pay the loan. She reviewed some
20 options with the Commission including:

- 21
22 • Transferring funds from the Excess Cash Reserve fund to the PMP fund
23 • Transferring funds from the General Fund to the PMP fund
24 • Start increasing taxes to repay the internal loan which would then transition to PMP
25 funding
26 • Do nothing until the PMP fund needs the cash.

27
28 Ms. Pietrick indicated she would not recommend option three.

29
30 Commissioner Bester thanked Ms. Pietrick for bringing this forward. He would recommend
31 option four, the City can carry the balance for some time as a majority of the loan has paid off.

32
33 Chair Davies wondered why, when there is excess in the Shopping Center fund, why that does
34 not go to pay this off, pay it down.

35
36 Ms. Pietrick indicated the reason why is that there is not that much excess in that fund. The City
37 has lost one or two tenants there. She explained she could look at that fund again but the last time
38 she looked it has maybe a half month of operating costs.

39
40 Chair Davies indicated with all of the visioning going on around the Campus expansion, do those
41 proposals include the shopping center.

42
43 Ms. Pietrick indicated the vision involves demolition of the shopping center. The Campus Master
44 Plan shows the maintenance facility going on that property. She reviewed the Campus Master
45 Plan with where the License Center and VFW are proposed to go.

46

47 Chair Davies thought the loan could just sit there and paying off the loan could be a part of the
48 expansion. She asked Ms. Pietrick what she recommends because the staff report indicates staff
49 would recommend any of the alternatives other than the do-nothing option, option four.

50

51 Ms. Pietrick explained she would be fine with doing nothing but would not recommend option
52 three, increasing taxes to repay it. It has been sitting there for four years and the PMP Fund will
53 not run out of funds for approximately ten years. She reviewed the various options with the
54 Commission.

55

56 Commissioner Murray agreed that nothing should be done until it is clear what is going to
57 happen across the road. It seems it would be a part of the cost of the whole project.

58

59 Commissioner Bester explained he would be ok with either recommendation one, two or four,
60 with four being his first preference.

61

62 Ms. Pietrick indicated she thought the City could go with recommendation four and see where
63 the project goes. Right now, Pavement Management is healthy and will not run out of cash and if
64 she has some freed-up resources that she can invest, this was the fund she was looking at
65 investing for.

66

67 Chair Davies asked if the Commission needed to make a motion to do nothing on this item.

68

69 Commissioner Murray thought this item could go on the Tracking report and bring it up again in
70 six months to see where it is standing.

71

72 Ms. Pietrick thought that was a good idea because that will give the Commission a chance to
73 look at the CIP sheets and go through the budget process as well.

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75 **Finance Commission –Excerpt of May 10, 2022 Minutes**

76 **Discuss Internal Loan Balance**

77

78 Finance Director Pietrick explained in 2018 the City purchased the shopping center at 2719
79 Lexington Avenue. To accomplish this purchase, \$1.5 million of funds were loaned from the
80 Pavement Management (PMP) fund and a receivable was recorded. The sale of the former fire
81 station on Fairview was seen as a way to repay this loan, hence the interfund loan receivable and
82 payable were recorded. The former fire station was sold and \$1,233,171.30 was received on
83 February 28, 2022 and the internal loan has been reduced to a remaining balance of \$266,828.70.

84

85 Ms. Pietrick reviewed the information with the Commission and instructed the Commission to
86 discuss alternatives for addressing the remaining interfund loan balance. She noted staff would
87 recommend either using the Excess Cash Reserve fund or the General Fund reserves to repay the
88 PMP fund. Staff is also willing to leave the receivable sit in the PMP fund until the fund needs
89 the cash.

90

91 Chair Davies did not see any reason why not to clean it up. She asked if there was a reason to
92 leave it there.

93
94 Ms. Pietrick indicated she would prefer to clean this up before the end of the year.
95
96 Commissioner Bester asked if this put the City in any kind of jeopardy with the cash positions,
97 general fund cash or does it help.
98
99 Ms. Pietrick indicated the City is at roughly forty-seven percent right now through the end of the
100 year and the City also has excess money in the excess cash reserve. Some of that is being used
101 for the 2023 budget.
102
103 Chair Davies indicated her preference would be to take it out of excess cash reserve fund. She
104 asked if the PMP fund is running out of money.
105
106 Ms. Pietrick indicated there is enough money in the PMP fund for approximately ten years'
107 worth or projects, if not longer. It would make that fund whole cash wise.
108
109 Commissioner Murray thought transferring the funds would be the way to do it. He noted he
110 emailed Chair Davies that this problem should not have occurred because he thought the Council
111 should look ahead and if something is going to be done, funding for it should be provided.
112
113 Chair Davies wondered how the shortfall happened.
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115 Commissioner Murray reviewed the history of this shortfall with the rest of the Commission.
116
117 Ms. Pietrick reviewed with the Commission the purchase of the shopping center and the
118 intention of the City for the purchase.
119
120 Commissioner Murray made a motion, seconded by Commission Sagisser to transfer funds from
121 the Excess Cash Reserve fund to the PMP fund. **The motion passed unanimously.**
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