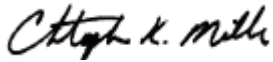


ROSEVILLE
REQUEST FOR COUNCIL ACTION

Date: 03/18/2019
Item No.: 7b.

Department Approval



City Manager Approval



Item Description: Discussion on Establishing a Cash Reserve Fund and Related Financial Sustainability Impacts

BACKGROUND

At the September 17, 2018 joint City Council-Finance Commission meeting, the Finance Commission recommended that the City establish a Cash Reserve (cash carry-forward) Fund by reassigning excess cash reserves that were being held in the City’s *unrestricted* operating funds. The recommendation was preceded by nearly two years of on-going discussion at various Commission and City Council meetings.

As mentioned in previous discussions, the conversation surrounding the establishment of a Cash Reserve Fund has the potential to impact a number of wide-ranging policies, planning efforts, and funding strategies. Some of these impacts are identified following the initial discussion on excess cash reserves.

Identifying Excess Cash Reserves

For purposes of this exercise, we define ‘cash’ as monies currently in the bank plus the net of *near-term* cash collections and payouts. ‘Excess’ cash reserves are further defined as cash being held excluding the following:

- Donations received, but not yet expended
- Amounts reserved or transferred for capital replacements
- Amounts needed for day-to-day cash flow purposes

The amount needed for cash-flow purposes is more specifically defined as the amount that exceeds the HIGH Target cash reserve level as identified in the City’s Operating Cash Reserve Policy and as shown in the table below:

Cash Reserve Target Levels			
	Target	Target	
<u>Operating Fund</u>	<u>Low</u>	<u>High</u>	
General (unrestricted portion)	35%	45%	
Parks & Recreation	25%	25%	
Communications	10%	30%	Target High revised from 25% to 30%
Information Technology	10%	15%	Target High revised from 25% to 15%
License Center	10%	15%	Target High revised from 25% to 15%
Percentages reflect the amount of cash holdings relative to the operating budget			

26 The following table provides a *preliminary* (unaudited) summary of the available cash reserves that could
 27 be reassigned to a Cash Reserve Fund based on the Finance Commission’s recommendation:
 28
 29

	12/31/2018	Less	12/31/2018	12/31/2018	12/31/2018	12/31/2018
	Cash	From	<i>Available</i>	Reserve	Amount	Amount
			Cash		Above High	Below Low
<u>Operating Fund</u>	<u>Reserves</u>	<u>Donations</u>	<u>Reserves</u>	<u>Level</u>	<u>Target %</u>	<u>Target %</u>
General (unrestricted portion)	\$ 5,103,081	\$ (62,803)	\$ 5,040,278	32%	\$ -	\$ 456,689
Parks & Recreation	2,171,463	(300,612)	1,870,851	38%	634,968	-
Communications	101,056	-	101,056	19%	-	-
Information Technology	616,458	-	616,458	21%	169,644	-
License Center	356,665	-	356,665	19%	80,990	-
					\$ 885,602	\$ 456,689

30
 31
 32 As shown in the table, approximately \$885,000 collectively would be considered ‘excess’ under the
 33 determining criteria noted above. However when we consider that the General Fund is approximately
 34 \$456,000 below the minimum target level, the ‘excess’ drops to \$429,000. Even then, there are a number
 35 of other potential impacts that should be considered before transferring any monies. They are identified
 36 in separate sections below starting with comments related to the financial performance of selected
 37 operating funds.
 38

39 **Financial Sustainability Impacts**

40
 41 General Fund

42 As depicted in the table above, the General Fund reserve amount has dropped below its recommended
 43 minimum level of 35%. As it turns out, the 2018 Budget proved to be remarkably accurate with *actual*
 44 revenues and expenditures at 99.8% of *expected* amounts. However, the 2018 Budget also had a planned
 45 deficit of \$681,000 and when coupled with the 0.2% variance we’re showing an operating loss of
 46 approximately \$733,000 in 2018.
 47

48 The higher-than-expected loss was primarily due to higher overtime costs, added remodel of City Hall
 49 space for the Roseville Historical Society, and lower contracted engineering services (revenue source)
 50 provided to the City of Falcon Heights. This negative outcome is compounded by the fact that the 2019
 51 Budget has a planned deficit of another \$340,000.
 52

53 Based on these results, the Council is asked to consider three potential courses of action:

- 54
- 55 1) Do nothing now and institute corrective measures with the 2020 Budget
- 56 2) Authorize an immediate transfer of cash from another fund(s) into the General Fund to
- 57 bring it into compliance with the Operating Fund Cash Reserve Policy before we close
- 58 the 2018 fiscal year.
- 59 3) A combination of options #1 & #2.
- 60

61 There are a number of policy-related issues that are now in play due to the operating results highlighted
 62 above. We know with certainty that the bond rating agencies will examine the City’s 2018 financial
 63 statements when they’re published later this spring. Eventually our investors will do the same. Staff
 64 expects to field questions on why cash reserve levels dropped below target levels as well as how the city
 65 will prevent future occurrences.
 66

67 Communications Fund

68 While the Communications Fund remains within the targeted 10-30% cash reserve level for now, it is
69 expected to decline by \$82,000 in 2019. If this occurs, the cash reserve level will drop to 4%. At a
70 minimum, it will be necessary to take corrective action within the 2020 Budget to re-balance the staffing-
71 related costs that can be funded by cable franchise fees which have declined 12% (\$54,000) in the past
72 year.

73
74 If made, the 2020 staffing-allocation change will require a corresponding increase in the property tax
75 levy.

76
77 Information Technology Fund

78 The calculated excess cash reserve amount in the Information Technology Fund declined by
79 approximately \$50,000 as additional funds were set-aside for capital-related items to ensure the 2019-
80 2038 CIP had sufficient cash reserves to fund scheduled replacements.

81
82 License Center Fund

83 Similar to the IT Fund, the calculated excess cash reserves in the License Center Fund dropped
84 considerably in 2018 due to a number of contributing factors. They include:

- 85
- 86 ■ \$250,000 cash transfer to finance the acquisition of the Lexington Shoppes site
 - 87 ■ \$55,000 outlay for renovation of the Passport and Auto Dealer areas
 - 88 ■ \$174,000 in monies set-aside to adequately fund capital-related items included in the 2019-2038
89 CIP. This includes \$100,000 for possible renovation of the motor-vehicle side of the License
90 Center.
 - 91 ■ \$140,000 general operating loss**

92
93 ** The operating loss is calculated after making \$455,000 in financial support payments to
94 other city programs

95
96 With regard to the oprating loss, we had projected a \$103,000 operating loss based on expected revenues
97 and expenditures. While revenues came in 1% higher than expected, we continued to experience on-going
98 challenges associated with motor-vehicle related transactions (MNLARS). This resulted in added costs
99 as staff routinely stayed well past normal operating hours to meet customer needs.

100
101 There are a number of legislative bills that are in progress for Roseville and other deputy registrars to
102 receive reimbursement for some of these excess costs, and there appears to be broad support within the
103 Legislature as well as the Governor's Office.

104 **DISCUSSION ITEMS**

105 The City Council has discussed at length the potential advantages and upside of creating a separate Cash
106 Reserve Fund - monies that might provide startup or temporary funding for a new initiative or perhaps
107 help buoy future property tax increases. However commendable it may be, the reassignment of cash from
108 one purpose to another carries potential tradeoffs and consequences.

109
110 The cash reserve target levels noted earlier were established primarily based on meeting the day-to-day
111 cash flow needs of the respective fund. However, these targets do not factor in business and economic
112 risk or initiatives identified in long-range plans where funds may have been accumulating over a period
113 of years.

114

115 The City’s Emerald Ash Borer (EAB) Program is a good example of the latter, while the 2007-2009
116 recession demonstrated the financial impacts that can occur at the License Center during an economic
117 downturn. During the recession and subsequent years, the License Center experienced a significant drop
118 in every transaction category including a 39% decline in passports and 18% decline in vehicle title
119 transfers. The result was a \$900,000 loss in revenue from 2007-2013. We didn’t return to pre-recession
120 passport transaction volumes until 2015.

121
122 A separate Cash Reserve Fund might supplant these and other ancillary reasons for holding excess
123 reserves in individual funds but only if the monies aren’t spent. Staff will be available at the meeting to
124 address any Council inquiries.

125
126 To provide the Council with a complete picture of available cash reserves, a summary of 12/31/18 Cash
127 Reserves for all funds is included in *Attachment A*. The attachment includes two columns that depict the
128 projected cash reserves in our unrestricted CIP funds at the 5-year, and 10-year mark.

129 **POLICY OBJECTIVE**

130 Not applicable.

131 **FINANCIAL IMPACTS**

132 See comments above.

133 **STAFF RECOMMENDATION**

134 Given the near-term funding challenges and lack of financial sustainability in some of the City’s
135 unrestricted operating funds, Staff recommends that the Council forgo the creation of a Cash Reserve
136 (cash carry-forward) Fund at this time.

137
138 Staff further recommends that the City Council authorize a one-time cash transfer of \$500,000 from a
139 fund identified on *Attachment A*, to bring the General Fund into compliance with the City’s Operating
140 Fund Cash Reserve Policy. Staff recommends that the cash transfer be made effective on 12/31/18 and
141 memorialized in a resolution to be brought forth at the March 25, 2019 City Council meeting.

142 **REQUESTED COUNCIL ACTION**

143 Staff is seeking direction on whether to proceed with the creation of a separate Cash Reserve Fund as
144 well as whether to enact any cash transfers to improve the General Fund’s cash position before closing
145 the 2018 books.

146
Prepared by: Chris Miller, Finance Director
Attachments: A: Summary of 12/31/18 Cash Reserve Levels: ALL FUNDS.
B: Supplemental Attachments

147