

Memo

To: Roseville Finance Commission
From: Patrick Trudgeon, City Manager
Date: October 8, 2019
Re: Item #6: Review September 16 Joint Meeting Discussion Topics with the City Council

Background

On September 16, 2019, a joint meeting was held between the City Council and Finance Commission to provide an opportunity for the Commission to present four separate recommendations on the following:

- The 2020 City Manager recommended budget and tax levy
- Changes in funding strategies for the 2020-2039 CIP
- Whether to establish a policy for the use of monies held in the Cash Reserve Fund
- Whether to modify the cash reserve target level for the Parks and Recreation Operation Fund
- The use of alternate options for the city's investment portfolio
- Whether to use the newly established Cash Reserve Fund to provide monies for the EAB program

The Council received the first two recommendations and will consider them when the final 2020 Budget and tax levy are approved this December. In regards to the third recommendations, the City Council provided clarity to their request that they were looking for a written policy regarding the mechanism for how and what funds would be swept and put in the case reserve fund when exceeding the recommended maximum fund balance and not a policy on how the City Council should spend those funds. The City Council also received the 4th recommendation regarding cash reserve target level for the Park and Recreation Operating Fund. The City Council expects to hear from the Park and Recreation Commission regarding its recommendation on target levels in the near future.

With regard to considering alternate options as provided under state law for the city's investment portfolio, the City Council indicated that would be interested in looking at that option further. Since the meeting, Commissioner Murray has written a draft policy that would allow for the city to invest its funds in index funds (Attachment B). I have also included the City's current investment policy. (Attachment C) The Finance Commission should discuss the draft policy and review the existing investment policy.

The City Council also received the Finance Commission's recommendations regarding use of the Cash Reserve Fund for the EAB program. The Park and Recreation Commission will be presenting its recommendation regarding EAB funding to the City Council on October 7. I will provide an update of that discussion at the Finance Commission meeting.

Staff Recommendation

Not applicable.

Requested Commission Action

Discuss the recent joint meeting and provide input for next steps on working on policies for the cash reserve fund and city investments.

Prepared by: Patrick Trudgeon, City Manager

Attachments: A: Draft City Council minutes dates September 16
B: Commissioner Murray's draft Investment Policy
C: Current Roseville Investment Policy

Regular City Council Meeting Minutes
City Hall Council Chambers, 2660 Civic Center Drive
Monday, September 16, 2019

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4 **1. Roll Call**

5 Mayor Roe called the meeting to order at approximately 6:00 p.m. Voting and Seating
6 Order: Willmus, Laliberte, Groff, Etten and Roe. City Manager Patrick Trudgeon and
7 City Attorney Erich Hartmann were also present.
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9 **2. Pledge of Allegiance**

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11 **3. Approve Agenda**

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13 Groff moved, Laliberte seconded, approval of the agenda as presented.
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15 **Roll Call**

16 **Ayes:** Willmus, Laliberte, Groff, Etten and Roe.

17 **Nays:** None.
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19 **4. Public Comment**

20 Mayor Roe called for public comment by members of the audience on any non-agenda
21 items. No one appeared to speak.
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23 **5. Recognitions, Donations, and Communications**

24 **A. Constitution Week Proclamation**

25 Mayor Roe read the proclamation and declared September 17-23, 2019 Constitu-
26 tion Week.
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28 Etten moved, Laliberte seconded, proclaiming September 17-23, 2019 Constitu-
29 tion Week.
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31 **Roll Call**

32 **Ayes:** Willmus, Laliberte, Groff, Etten and Roe.

33 **Nays:** None.
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35 Nancy Adomeig and LaVerne Dickhudt, Representatives of the Daughters of the Ameri-
36 can Revolution, Nathan Hale Chapter, were at the meeting and thanked the Council for
37 the proclamation.
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39 Mayor Roe took a photograph with the representatives and the proclamation.
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41 **Recess**

42 Mayor Roe recessed the meeting at approximately 6:05 p.m., and reconvened at approximately
43 6:07 p.m.
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6. Items Removed from Consent Agenda

7. Business Items

a. Joint Meeting with Finance Commission

City Manager Trudgeon briefly highlighted this item as detailed in the Request for Council Action and related attachments dated September 16, 2019.

Finance Chairperson Hodder, Commissioners Reif, Murray and Sagisser were at the meeting to review the items with the Council.

Chair Hodder reviewed the 2020 City Manager Recommended Budget and Tax Levy.

Chair Hodder reviewed the Changes in Funding Strategies for the 2020-2039 Capital Investment Plan.

Mayor Roe explained the city has debt that was incurred in the early 2000's for the remodeling of city hall and the public works building. The city was paying approximately \$765,000 a year towards that debt, which will be paid off in 2019. In 2020, the city will no longer be paying that debt, that money is included in the tax levy each year. When the project was originally approved, the understanding was that when the city was done paying off the debt, the debt payment would be removed from the levy. One of the things the Council has been discussing over the last ten years is the ongoing and future capital needs for infrastructure repairs and rehabilitation and replacements. One of the strategies the city has been using up to this point has been to apply monies from retired debt towards capital needs. This year, the last two funds that it is being applied to are the pavement management fund and the parks improvement fund.

Mayor Roe noted in the case of the facilities fund, the OVAL funding comes from state bonding money which the city is requesting legislative approval, there are no tax levy dollars going towards that. By making changes to how the city uses existing levy capacity, the city is not asking taxpayers to pay more in their taxes to cover those capital infrastructure needs but rather, the city is able to use funds that are already being paid by taxpayers. The capital replacement funds are pretty well taken care of with these recommendations and there is actually the ability in the facilities fund to start looking at reductions in the level of funding going forward which is an important step to get to in this process.

Mayor Roe thought the only other thing noted at the Finance Commission meeting was that the pavement management fund has been split into the municipal state aid fund versus the fund that is self-funded and the reason why the balance does not look the same, because that was shifted a little bit.

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Chair Hodder reviewed the topic of establishment of the policy guides used to for cash reserve fund.

Mayor Roe thought there may have been a bit of misinterpretation from the May 18th discussion. He indicated he was the one that was suggesting a policy and thought what he was talking about was that staff needed to write down the mechanism of doing the sweeping of the excess funds and develop a policy that says the city is going to do that along with the funds being looked at and where the money would go rather than a policy on how the city will spend the funds. He agreed with the Commission that it is a broader discussion and does not need to be put into a policy.

Chair Hodder indicated that explanation provided clarity for the Commission.

Chair Hodder reviewed the topic to modify the cash reserve target level with the Park and Recreation and operating fund.

Mayor Roe asked if this item was going to the Parks and Recreation Commission for their consideration as well.

Mr. Trudgeon indicated at some point it was, but he was not sure of the status of that item at this time.

Mayor Roe thought once it goes through the Parks and Recreation Commission, the next step would be to bring forward the revised policy language that includes that.

Commissioner Murray reviewed the alternative investment options and noted he has been working on this for a couple of years.

Councilmember Etten asked based on the two-investments mentioned which Commissioner Murray felt was safer for these dollars.

Commissioner Murray indicated the FCC does not allow him to answer that question. He believed the League of Minnesota Cities is investing in Vanguard's Equity's index fund. He noted he talked to Vanguard and was told that even in a bad year the investment has yielded about six percent. He would lean toward the index fund and did talk to Finance Director Miller about ways to spread it in over time to lower the risk and is probably the way to go.

Councilmember Willmus indicated he would be willing to look at this further. This could be an opportunity to diversify the portfolio a little bit greater than the city currently does.

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134 Commissioner Murray explained the law allows only up to twenty-five percent
135 and the previous finance director was in agreement with the Commission to be
136 around twenty percent, which was reasonable.

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138 Councilmember Laliberte appreciated the work that was put into this item. She
139 was also interested in pursuing what is allowed to the city through the state and
140 the change the state has made so if the recommendation is for twenty percent, she
141 would be open to have further discussion about that.

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143 Councilmember Groff concurred and thought Commissioner Murray's work was
144 very helpful and he appreciated that. He thought that as long as it is done in a
145 gradual safe manner.

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147 Mayor Roe thought it might be appropriate to recommend to the Commission the
148 development of a policy related to doing this and as to how much, which types of
149 city funds as well as parameters for management.

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151 Mr. Trudgeon believed the law change only affects cities that have an AAA Bond
152 rating and that not all cities are eligible for this opportunity. He thought if there
153 was some interest in doing this the Finance Commission can work with staff to
154 create a policy to look at the funds to be used with recommendations and bring it
155 forward for Council ratification.

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157 Commissioner Murray did not really want to get into too much detail in doing it
158 and would suggest turning it over to the finance director and come up with a pro-
159 posal of what the finance department wanted to do.

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161 Mayor Roe indicated the Council was supportive of the approach.

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163 Commissioner Reif reviewed the topic of looking at the use of the cash reserve or
164 cash carry forward fund to provide monies for the EAB Program.

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166 Councilmember Etten asked if the concern with approving a five- or six-year plan
167 up front, or is it a concern to use the cash reserve account.

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169 Commissioner Reif thought the concern was approving a five- or six-year plan up
170 front for something the Commission felt was more of an annual request by the
171 parks and recreation department.

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173 Chair Hodder noted there were many competing interests for very limited dollars
174 and the reserve fund was decreasing precipitously so the Commission did not
175 want to make that recommendation.

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177 Commissioner Sagisser thought it was an odd use for a cash reserve fund to be a
178 five-year project.

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Mayor Roe thought the objective would be that each year the Council can weigh those needs with other needs and what the balance might be in the fund at that time or in the city's funds at that time.

Chair Hodder indicated that was correct and then the city could also make adjustments through the levy and tax process each year. If funds needed to be replenished then the city could look at that at that time and whatever needs would need to be done for parks and recreation or any other competing interest, it could be done in a sustainable way without the funds going below the set level.

Councilmember Etten thought this made sense and thought the parks and recreation commission was looking for that broader spectrum of how to deal with the issue of the Emerald Ash Borer. He thought of this more like the CIP planning that was done eight years ago which showed a plan and indicated each year the Council would need to take action toward that plan and not automatically committing those funds.

Councilmember Groff explained he liked this recommendation because he thought it allows the city to adjust as things might change rather than putting something aside. He thought it was nice flexible idea and made sense to him.

Councilmember Laliberte understood what was being put forth by the Commission and she was comfortable with that.

Mayor Roe noted he viewed the Parks and Recreation Commission meeting and there was extensive discussion about this, and he thought there was a recommendation from that group that will come forward to the Council.

Recess

Mayor Roe recessed the meeting at approximately 6:47 p.m., and reconvened at approximately 6:48 p.m.

8. Approve Minutes

9. Approve Consent Agenda

10. Future Agenda Review, Communications, Reports, and Announcements – Council and City Manager

11. Adjourn

Groff moved, Willmus seconded, adjournment of the meeting at approximately 6:49 p.m.

Roll Call

Ayes: Willmus, Laliberte, Groff, Etten and Roe.

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Nays: None.

ATTEST:

Daniel J. Roe, Mayor

Patrick J. Trudgeon, City Manager

DRAFT

Roseville investment policy (submitted by Finance Commissioner John Murray)

The city of Roseville shall follow applicable state law regarding the investment of funds with either the state board of investment or an index fund.

Investments shall be done by the finance director. The city manager is to be kept currently informed of investment activities.

No more than 20% of available investable funds shall be invested in an index fund or with the state board of investment, unless city Council temporarily approves of a higher limit as allowed by state law.

Investment in an index fund, shall be a broadly-based mutual fund. The index fund shall have fees of no more than 1% per year of invested assets, and no more than 15% turnover per year.

Purpose

The purpose of the Investment Policy is to ensure the most efficient use of the City's idle funds, and to ensure the best return on these funds while making only those investments allowed by law.

Policy

- The City will make a cash flow analysis of all funds on a regular basis. Disbursement, collection, and deposit of all funds will be scheduled to ensure maximum cash availability.
- When permitted by law, the City will pool cash from several different funds for investment purposes.
- The City will invest 99 percent of its idle cash on a continual basis.
- The City will obtain the best possible return on all cash investments. Such investments will only be those legally permissible under Minnesota law.
- The accounting system will provide regular information concerning cash position and investment performance.
- The City will make arrangements for banking services on a contractual basis for a specified period of three years, with specified fees for each service rendered.
- The City includes interest earnings and investment summaries as part of the Comprehensive Annual Financial Report (CAFR).

Implementation

See Investment and Portfolio procedures.

Investment and Portfolio Procedures

Scope

These investment and portfolio procedures apply to the activities of the City with regard to investing the financial assets of all funds, including the following:

- General Fund
- Special Revenue Funds
- Capital Project Funds
- Debt Service Funds
- Special Service Funds
- Internal Service Funds
- Trust and Agency Funds

Objectives

Funds of the City will be invested in accordance with Minnesota Statutes, Council-approved fiscal policies and these administrative procedures. The City's investment portfolio shall be managed in a manner to attain a market rate of return throughout budgetary and economic cycles while preserving and protecting capital in the overall portfolio.

The market rate of return shall be to the same rate as the target portfolio. Investments shall be made based on statutory and policy constraints. Funds held for future capital projects (i.e. bond proceeds) shall be invested to produce enough income to offset increases in construction costs due to inflation. Where possible, prepayment funds for long-term debt service shall be invested to ensure a rate of return at least equal to the interest being paid on the bonds.

Delegation of Authority

The Finance Director is designated as investment officer of the City and is responsible for investment decisions and activities, under the direction of the City Manager.

Prudence

The standard of prudence to be applied by the investment officer shall be the "prudent investor" rule. This rule states, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." The prudent investor rule shall be applied in the context of managing the overall portfolio.

The investment officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

Monitoring and Adjusting the Portfolio

The investment officer will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments and will adjust the portfolio accordingly.

Internal Controls

The Finance Director shall establish a system of internal controls, which shall be reviewed annually by an independent auditor. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes, or imprudent actions. Investments shall be done on a pooled funds basis with interest allocated on a cash balance method. Those internal controls shall consist of competitive bids on investments, and division of duties among the staff including:

- Investments made by the investment officer
- Records maintenance by a finance staff member other than the investment officer
- Review and reconciliation by the assistant finance director

Portfolio Management

Under the Council-adopted Fiscal Policies, it shall be the City's procedure to restrict investments to only Repurchase Agreements with national or state chartered banks, U.S. Treasury and U.S. Government Agencies, Guaranteed Investment Contracts, and Bankers Acceptances. All investments shall carry a minimum credit rating of 'AA'.

An exception to these restrictions is permitted with regard to the investment of proceeds received from the 2011 and 2012 bonds due to extenuating economic circumstances and their effect on financial institutions. Repurchase Agreements associated with the bonds can be placed with any bank, bank holding company, savings and loan association, trust company or other financial institution including the trustee or any of its affiliates. The financial institution shall carry a credit rating of 'A' or better, and is required to pledge collateral from national or state chartered banks.

The procedures shall consist of yield curve analysis and implemented with the appropriate purchase of the above investments.

Maturity scheduling shall be within those investments and in a manner that will maximize yield and liquidity and minimize interest rate risk.

Competitive Selection of Investment Instruments

Before the City invests any surplus funds, a competitive "bid" process shall be conducted. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments that meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturities would be most advantageous. Bids will be requested from financial institutions for various options with regards to term and instrument. The City will accept the bid that provides the highest rate of return within the maturity required and within the parameters of these procedures.

Bids for purchases through the treasury auctions are not required.

Records will be kept of the bids offered, the bids accepted and a brief explanation of the decision that was made regarding the investment.

Settlement

All settlements of investments shall be on a "Delivery vs. Payment" (DVP) basis. Physical delivery shall be avoided if at all possible, with book entry being the preferred method of safekeeping.

Safekeeping and Collateralization

All investment securities purchased by the City shall be held in third-party safekeeping by an institution designated as primary agent. The primary agent shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity and other pertinent information.

Reporting Requirements

The investment officer shall generate daily and monthly reports for management purposes. The annual investment report shall be completed on a time weighted basis and shall be included as part of the Comprehensive Annual Financial Report to the City Council. The target portfolio shall be the U.S. Government Bond Yield Index for the comparable period.