

# Memo

**To:** Roseville Finance Commission  
**From:** Michelle Pietrick, Finance Director  
**Date:** July 12, 2022  
**Re:** Item #5: Review Capital Investment Policy

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## Background

The City's Capital Investment Policy was last reviewed on May 6, 2019. Best practices state that financial policies should be periodically reviewed and updated.

I have highlighted a couple of sections that require updating.

- Under the Street Infrastructure Replacement Fund, the section categorizing this as a permanent fund should be removed, (page 2 of the policy). This fund has been spending more than interest proceeds for at least 10 years based on needed street replacements. Per discussion with the City Manager and Mayor, they thought this had been removed previously. Replace with maintain 5-10 years of construction projects in reserves.
- Under definitions, the capital asset threshold should be increased to \$10,000 to correspond with the increased purchasing threshold (page 3 of the policy).
- Under Higher-cost capital additions, I would remove the highlighted section and replace with "as separate Council actions with detailed fiscal analysis" (page 3 of the policy).
- Enterprise fund definition should replace the 100% fee supported with primarily fee supported. The capital asset needs of the Golf Course are covered by transfers from the Parks Equipment and Parks Improvement funds (page 3 of the policy).

I would also recommend removing Exhibit A and B as these are more regularly found in a procedures document, not a policy document (page 5-8 of the policy).

## Staff Recommendation

Review the current Capital Investment Policy.

## Requested Commission Action

Discuss and consider recommended changes.

Prepared by: Michelle Pietrick, Finance Director  
Attachments: A: Capital Investment Policy – as of 5/6/2019

## **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.

- 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.
- 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 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.

### Definitions

Capital assets – Assets which cost \$5,000 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.

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% 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

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### 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<sup>(a)</sup> 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.

<sup>(a)</sup> *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.

<b>Revenues</b>	<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
<b>Expenditures</b>	<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

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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
<b>Construction Cost</b>	<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%
<b>Program Revenue</b>	<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%
<b>Operating Cost</b>	<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%
<b>Net Cost</b>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Estimate	\$ 85,000	\$ 95,000	\$ 85,000
Actual	49,000	56,000	33,000
<b>Facility Usage</b>	<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]