

**Finance Commission
Meeting Minutes
January 9, 2018**

Roll Call/Announcements

The Finance Commission (FC) meeting was called to order at 6:30 p.m. Chair Schroeder called the roll.

Commissioners Present: Robin Schroeder, John Bachhuber, Peter Zeller, John Murray, Edwin Hodder, Matt Harold and Malcolm McRoberts

Commissioners Absent: None.

Staff Present: Finance Director Miller

Finance Director Miller stated Commissioner McRoberts had been reappointed for another term by the City Council.

Receive Public Comments

There being no one wishing to address the Commission, Chair Schroeder moved to the next agenda item.

Approval of Meeting Minutes

Chair Schroeder stated Commissioner Zeller had sent out revisions and asked if there were additional changes.

Commissioner Hodder stated line 76 should be changed to: “stated that the guidelines should not be rigid but provide a framework for making decisions.”

Commissioner Zeller moved, Seconded by Commissioner McRoberts to approve the November 14, 2017 meeting minutes as amended. **The motion carried unanimously.**

Commissioner Murray stated in line 23 “Vice chair Zeller” should be changed to “Chair Schroeder”. Line 123 change “tot eh” to “to the”.

Chair Schroeder stated line 82 stated “Matt stated” and he was not at the meeting. It should read “In an email, Matt stated...”.

Commissioner Hodder stated line 239 should read “...investing in renewable technologies...”

Commissioner Zeller stated line 153 change “replacement” with “replace” and line 170 strike the word “it”. Line 309 change “weather” to “whether”. Line 366 change “funs” to “funds”.

Commissioner Zeller moved, Seconded by Commission Hodder to approve the December 12, 2017 meeting minutes as amended. **The motion carried unanimously.**

Receive Finance Commission Recommendations Tracking Report

Commissioner Harold stated he had made the recommended changes to the report and asked if the Commission had other changes that should be made.

Chair Schroeder stated the date should be changed for recommendation 2017-9. She asked if the Commission would want to include those items they wish to combine and meet with the City Council to discuss.

Commissioner Harold stated he would add a comment in the last column that the Commission would meet with the City Council to discuss.

Commissioner Bachhuber suggested putting this information after the date so it could be easily tracked.

Establish 2018 Meeting Calendar

Chair Schroeder stated the August meeting would be rescheduled to August 16.

Commissioner Bachhuber moved, Seconded by Commissioner Murray to establish the Finance Commission meeting calendar as the second Tuesday of each month with the exception of the August meeting being scheduled for August 16. **The motion carried unanimously.**

Continue Discussion on Establishing A Cash Reserve Fund

Chair Schroeder stated she would like to include Commissioner’s Zeller idea of including this in the budget as part of this discussion.

Commissioner Zeller stated one of the alternatives discussed by the Commission had been to budget to target reserves for operating budgets and if there were an overage or shortage this would be rolled into the next year’s budget instead of setting up a separate fund balance for this.

Chair Schroeder stated she would like to add to the future items discussions taking the capital items out of the operating budget for these funds and having them in the CIP.

Commissioner Harold stated removing the capital from these funds would be a prerequisite before the Commission could make any recommendations on how the excess operating monies should be carried forward.

Finance Director Miller stated there are also restricted funds that contain an operating and capital component. He stated the funds the Commission's referring to were established to capture funds for a specific function and it was meant to include both operating and capital pieces for these particular funds.

Commissioner Bachhuber asked if there was a way to account for the future need within an account.

Finance Director Miller stated the CIP was setup to track and identify those needs. He stated the Council was looking for a recommendation from the Commission on establishing a cash carry forward fund for excess funds that could be used for future initiatives.

Commissioner McRoberts stated the Commissioner has expressed concerns regarding those departments that consistently under spending or overachieving revenue. If the excess funds are just moved to another fund then this would just be a mechanism for building up another fund.

Commissioner Zeller stated the City should not be building up excess funds unless they are needed because this means the citizens are being over taxed. Taking the capital component out of these funds would provide a better picture of the true operating costs.

Chair Schroeder asked if it was still useful to keep the capital costs in these particular funds.

Commissioner Bachhuber stated having all of the capital needs together would make it more efficient for the City to determine where the needs are and how best to meet the capital needs of the City. Departments could ask for more capital because it is not included in their budgets.

Commissioner McRoberts stated in the IT fund there is a budget surplus from an operating point of view, which is designed to cover a capital expenditure. But then the department under achieves in the capital expenditures so there is a greater than expected budget surplus. Yet there is no prioritization of that capital expenditure with everything else. This seems that an operational over or under which is essentially a source of funding and there is a capital expenditure and that sort of funding should be considered with other sources of funding and the capital expenditures should be prioritized with everything else. Otherwise those that are capable of generating their own revenue get to write their own check for capital and there is no point in prioritizing.

Commissioner Zeller stated the original staff recommendation had been to exclude the funds that have capital built included in their budgets and only look at the general fund.

Commissioner Harold stated he still felt that all operating funds should be included. The general fund already has a reserve fund and it did not make sense to move these same funds into a

different fund when the general fund reserves can be used for what the City needs. There could be more value if the other funds are included because then all of the excess funds can be pooled together to use.

Commissioner Bachhuber stated the License Center would be the only one that could be a stand-alone profit center.

Commissioner McRoberts stated there is no sense having prioritization if there are departments that can be exempt from this prioritization.

Chair Schroeder stated if the capital was removed from these funds it would create more consistency in the accounting and how each department is run.

Commissioner McRoberts asked if the Commission's recommendation to the Council would be capital should be split out and it should be included within whatever the Council deems to adopt of the Commission's recommendations for capital prioritization. Once the capital is taken out the Commission could make a recommendation on the creation of a cash reserve fund.

Finance Director Miller stated the staff recommendation is already presented. He stated it would be easier for this group if the capital were taken out of the funds but the Commission should consider how it would be easier for the Council to make decisions.

Chair Schroeder stated the Council does struggle with determining what the excess and deficits are for all of the funds. This is way the Council has discussed creating a cash fund because this would allow them to see these surpluses and deficits. Taking the capital out would make it more clear for the Council to see what the surplus or deficit is for each fund.

Commissioner McRoberts stated there were inconsistencies of the operating needs being included in the budget when new capital expenditures were approved. If the capital were separated out then it would be consistent for all departments.

Commissioner Bachhuber stated the Commission would want to establish a threshold for the cash carry forward fund. The funds could be swept after the fund reaches the determined amount or range.

Commissioner McRoberts asked if the intent was if one of the funds was over the threshold to allocate these funds to another use or to adjust the expenditure for the next year.

Chair Schroeder stated the excess could follow the capital.

Commissioner Bachhuber suggested it get swept out and goes somewhere else. He would recommend this because if it used for the next years budget it could create instability within the fund in future years.

Commissioner McRoberts stated each fund has an upper and lower excess threshold and if funds that are swept out are those that are over the upper threshold amount then there should not be instability or volatility in the fund because there is still an excess in the fund.

Finance Director Miller asked where the ongoing funding for the capital needs for these funds would come from. Part of the reason for segregating some of these funds was for accountability. If the department knows they will need funds and they know that the decision to make the capital investment is so critical they do not want there to be a choice in doing it or not, they can have the item already funded.

Commissioner McRoberts asked why the City would prioritize capital items if there were different capital funds for each department.

Chair Schroeder stated the Commission was in agreement to separate the capital from the operating.

Commissioner Bachhuber stated departments would need to trust in the prioritization and the work the City does on the CIP to know that these capital needs would be done appropriately. He suggested that the amount that each department contributes to the CIP is based on what their CIP needs and would be part of the departments budgeted expenditures. Then anything that is in excess of the target surplus could be swept into a cash fund.

Finance Director Miller asked what would happen if the fund falls below the target range.

Commissioner McRoberts stated this would occur through budgeting. If a department falls below the target levels then they should not be spending as much.

Finance Director Miller stated if the City lowers budgets and departments fall below the target reserves then the City would have less flexibility to respond to unforeseen expenditures that may arise.

Chair Schroeder clarified the Commission would recommend taking the capital out of these funds and have it in its own separate CIP fund.

Commissioner McRoberts stated if the funds in the CIP fund are greater than what is needed to fund the 10-year CIP then the excess funds should be moved out.

Commissioner Hodder asked where public safety capital and operational needs would be found.

Finance Director Miller stated the operational needs are in the general fund and both police and fire have separately managed capital equipment replacement funds.

Commissioner Zeller suggested removing the prioritization from the discussion at this time. Separating the CIP from the operations would be a first step in establishing a cash carry over fund.

Commissioner Bachhuber stated the target ranges for each fund would need to be reviewed to ensure they are set to an appropriate level. Once this is done, if a fund is above the target range the excess funds should be swept somewhere, for the City to use in other areas that may have a need.

Chair Schroeder clarified the City Council would have the ability to decide where the excess funds in the cash carry forward fund would be spent.

Commissioner Zeller stated if budgets are set to cover the CIP, operating and the maximum reserve and funds in excess of this are moved to the cash carry forward fund it could encourage under spending to increase the funds in the cash carry forward and these funds may not be used to reduce the tax levy. There is no maximum level set for the cash carry forward fund. If there are capital needs then the City should fund those needs.

Commissioner Bachhuber agreed these funds would be over and above what the City needs and should be used to reduce the levy or fund the short falls in the CIP.

Commissioner Zeller stated the City should budget according to the needs as they exist rather than incentivizing a cash carry forward fund.

Commissioner Bachhuber stated the City should not need another account to grow money for future initiatives. Future initiatives should be identified and prioritized in the CIP and funded that way.

Chair Schroeder stated moving the funds to a separate account is essentially the same as leaving them where they are unless there is a policy stating what to do with the funds. Ideally the fund would be zero because if it were a line item in the budget it would automatically adjust itself each year.

Commissioner McRoberts stated the policy for the excess funds beyond the operating and CIP needs should be that these funds are reviewed as to why they occurred and make adjustments so they do not continue to occur.

Commissioner Bachhuber stated the amount in this fund should be greater than zero and the amount would be dependent on the amount of reserve in each fund. The reserve targets for each fund could be lowered. The City does want to ensure they are prepared for unforeseen expenditures.

Finance Director Miller stated it would not be in the public's best interest to have funds that have zero balances. If the City is presenting financial statements there should not be accounts or funds with zero balances. The structure of the City's finances might not be able to weather this change. Government operates in separate "pots" of money.

Commissioner Bachhuber stated the next discussion points would be what are the individual limits in each of the funds and what would the limit be for the sweep fund.

Commissioner McRoberts suggested the sweep fund have a target level that would be sufficient to be able to fund those areas that fall below their targets and if this account gets above the target there should be a formal review.

Chair Schroeder clarified this concept would budget to the target low for each fund and everything above that would be moved to the cash carry forward fund. The cash carry forward fund would also have a target range and if the fund goes above this amount the City would have a formal review and discussion on what the funds should be used for and the remaining funds would be used to keep the funds at the target levels. She asked Finance Director Miller what the target range would have to be for the cash carry forward fund in order to support the City if a need were to arise. The Commission would like to know how these policy changes would impact the funds.

Discussion On Utility Infrastructure Replacement Funding Strategies

Chair Schroeder stated the Commission had reviewed this previously and had unanimously agreed that the utility infrastructure replacement funding should not be included in property taxes.

Commissioner Murray asked if there had been any changes since the Commission had reviewed this item.

Finance Director Miller stated there were no changes. The impact for the average household may not be significant but other property types would be impacted significantly more.

Commissioner McRoberts stated the value of the infrastructure does not change with the price of the house.

Commissioner Harold moved, Seconded by Commission McRoberts to recommend the City not change the way the rates are charged for the utility infrastructure funding. **The motion carried unanimously.**

Identify Discussion Items for the Future Meeting (Feb. 13, Mar. 13, April 10)

Chair Schroeder stated the next agenda would include continued discussions on the cash carry forward fund, the draft meeting calendar and meeting topics and review and discussion of items the Commission would like to present to the City Council.

Finance Commission Minutes

January 9, 2018

Page 8 of 8

Adjourn

Commissioner Zeller made a motion, seconded by Commissioner McRoberts to adjourn the meeting. **The motion carried unanimously.**

Meeting adjourned at 8:21 p.m.

Respectfully submitted,

Tina Borg

TimeSaver Off Site Secretarial, Inc.