

**Finance Commission
Meeting Minutes
February 13, 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, Peter Zeller, John Bachhuber, Matt Harold, Edwin Hodder, Malcolm McRoberts, and John Murray

Commissioners Absent: None

Staff Present: Finance Director Chris Miller

Chair Schroeder announced that Commissioner Zeller will be leaving the Finance Commission, and she encouraged interested members of the public to apply for the upcoming vacancy.

Receive Public Comments

Cynthia White publicly thanked Commissioner Zeller for his service on the FC. Ms. White then asked when the Commissioners knew the City Council voted to purchase the strip mall wherein the License Center resides.

The Commissioners indicated they found out at the same time the rest of the public found out.

Ms. White responded that seems odd that the FC was not involved in the decision-making process.

Finance Director Miller updated the Commission that the City Council voted to proceed with purchasing the License Center with a closing date in a couple of months. The due diligence period is occurring right now.

Finance Director Miller was asked about the price, and indicated that part of that type of information is public and part of it is private. The purchase number of \$2.3 million is public information. He noted that the entire strip mall is about 14,000 square feet. The Council is interested in buying the entire property, and the License Center will stay there for the foreseeable future.

Commissioner Bachhuber asked why the Council decided to buy public property.

Finance Director Miller recalled that several reasons were cited, including the City's need for additional storage; that it makes sense to have the License Center in a City-owned facility; and its proximity to the City Hall campus, thus providing a strategic location for future initiatives.

Commissioner Murray asked about the City's plan to finance the purchase.

Finance Director Miller added that the City will use bonds to finance the acquisition, and would then use rents collected from tenants to pay off those bonds. The plan in the near-term is for the City to occupy half the strip mall while the paying tenants will occupy the other half.

In response to a question from the Commissioners, Finance Director Miller stated the bonds would typically be structured for 15 years.

Commissioner Murray questioned whether it is realistic to have the rental payments cover the cost of the bonds.

Chair Schroeder suggested it would be worthwhile to receive additional information on the financials.

In response to questions from the Commission, Finance Director Miller recounted the timeline of the City's decision to acquire the strip mall.

Chair Schroeder asked whether the City plans to utilize the large amount of money (\$900,000 to \$1 million) that is currently set aside to pay for the bonds or pay for renovations.

Finance Director Miller responded that could be part of the financial package or for the renovations, but it has not yet been decided.

Chair Schroeder suggested adding this item to the Commission's agenda next month, so that more information can be shared with the FC.

Finance Director Miller responded the City Council has shared publicly what they are willing to share. What is included in the articles is all that is available right now.

Commissioner McRoberts asked whether this should have been included in the CIP.

Finance Director Miller responded that any capital improvements needing to be made at the License Center should be included in the CIP.

Commissioner Bachhuber concurred that any capital need should show up in the CIP. Furthermore, he is unsure what the City Council wants the FC to do, if it is willing to make that kind of decision without input. He commented that the purchase price was \$2.3 million with an estimated value of \$1.6 million. He wondered about a faulty assessment. It seems like the property values for residential is more in line with market values than what this appears to be. Either the City overpaid significantly or the City is underestimating the value of commercial property in Roseville.

Commissioner Murray asked for specific financial details. Finance Director Miller indicated he will pass that request along to the Council.

Commissioner Bachhuber added to the request that an invitation for the Mayor to come speak to the FC to provide additional details.

Commissioner Zeller noted that the recommendations of the FC, like the 4% tax levy increase, do not seem to hold as much weight with the City Council as other Commissions do. It would be helpful to have the Mayor come in and explain the process to the FC. This purchase changes the assumptions under which the FC.

Chair Schroeder agreed, noting that it would be reasonable to have expected the Council to have asked for the FC's opinion or at least given some notification.

Commissioner Bachhuber recalled that the City Council had previously expressed a desire to figure out how to maintain existing assets before buying new assets -- with this strip mall being considered a new asset -- before it has figured out how to maintain existing and replacement assets.

Finance Director Miller noted the due diligence period is still underway. This is not the first group to express these thoughts; the Council has heard that since voting. What explanation they want to give in response, he is not sure.

Commissioner McRoberts stated it would be easier for the FC to help the City if it was aware of these things.

Chair Schroeder noted this is not the first time this type of thing has come up, and it causes her to question the purpose of the FC. Significant time and effort is spent by the Commissioners.

Commissioners Hodder and Harold concurred with the sentiments of the Commission.

Approve Meeting Minutes

Commissioner Zeller noted the following correction to the January 9, 2018 minutes:

- On Line 85, "average" should be "overage"

Chair Schroeder noted the following correction:

- On line 227, it should read "to ensure they are set to an appropriate level"

Commissioner Murray moved, seconded by Commissioner Zeller, to approve the January 9, 2018 meeting minutes as amended. **The motion passed unanimously.**

Receive Finance Commission Recommendations Tracking Report

The Commission approved of the tracking report and thanked Finance Director Miller and Commissioner Harold for their work.

Continue Discussion on Establishing a Cash Reserve Fund

Finance Director Miller stated the consensus at the January meeting seemed to be that the FC wanted to wrap up consideration of this item. The staff report highlights the important discussion points of the Commission (pages 1-2) as well as the nuances behind what staff recommended (starting on page 3). The staff has suggested using excess funds already in the general funds, and not use other operating funds like IT and the License Center. The report gives the staff's emphasis of best practices that most Municipalities follow. Staff thinks it should be narrow in scope and let that play out for a couple years to see whether it achieves the outcome some are looking for. Ultimately, however, it is up to the FC to give a recommendation to the City Council.

Chair Schroeder asked about the public donations referenced on the chart on page 2.

Finance Director Miller explained the general public provides donations for specific purposes. That does not carry a legally binding mandate but there is a lot of intent. Thus, the City should think hard about honoring that intent. Moving those funds to another purpose will undermine public trust. Regardless of what happens with the cash reserve fund, staff suggests the City continues to honor the donations.

Commissioner McRoberts stated he understands the logic, but this is giving an artificially low picture of the reserves available at Parks and Rec.

Finance Director Miller noted the purpose of this memo was the last column, and it was in response to a question about how much cash is available.

In response to a question, Finance Director Miller explained how the target is decided upon: to be sure there are enough cash reserves in between revenue collection periods, for the next 12 months.

Chair Schroeder noted staff has suggested just doing the one fund.

Finance Director Miller noted staff feels strongly that, in the absence of Council discussion, these other funds were created with intent and evolved over a period of decades. That conversation with the Council has not yet taken place. Rather than automatically taking the money out because it is excess and place it in the cash carry-forward fund, there ought to be a careful process before undoing what has been done for decades.

Commissioner McRoberts clarified the Commission has said, if the funds are swept, then the Council can more appropriately see the funds.

Chair Schroeder also recalled the CIP should be taken out of these funds before anything is done. The sweeping does not work if capital is included in the funds.

Finance Director Miller stated this chart gives the transparency of where the excess reserves came from. Cities have gone to great lengths never to have a pile of money sitting aside with an undecided future. That used to happen all the time, and there was fair amount of criticism from the public.

The Commission discussed the best way to display the cash reserves. It was also noted that there is a relationship between the CIP and the cash reserves.

It was suggested by Chair Schroeder that when the money is earmarked for something like the License Center, it should not be a cash reserve fund; it should be in a CIP. It is easier to tell the public that this money is in the CIP fund than it is just sitting there in the cash reserves.

Commissioner McRoberts stated it is important to have the cash reserves split out to help the Council and public see where those funds are coming from.

Commissioner Zeller noted he has tried, since the last meeting, to put some scenarios together to see how this would work. He noted this policy does not address the deficit side of things, which happens almost as frequently as surpluses. In addition, the FC has recommended a policy to deal with excess amounts in the budgets. He recommended rejection of the proposal as it has been presented, to create a single cash reserve fund.

Commissioner Zeller moved to REJECT the future initiatives funding program as presented by the City, put together by staff and dated on July 12, 2017, and recommend sticking with the current operating and fund reserve policy.

Finance Director Miller noted the Council's direction was not to comment on staff's proposal but rather to comment on the creation of a cash carry-forward policy and process. Staff had already given its recommendation as a separate aside. The Council wants to know if what is contemplated on page 2 of the staff report is a good idea.

Commissioner Zeller withdrew his motion.

Commissioner Zeller emphasized that any policy needs to address a deficit.

Chair Schroeder noted she did not support the policy put forward by the staff. Most of the Commission had come to that conclusion, she recalled.

Chair Schroeder commented if capital cannot be removed from the operation funds, then cash carry-forward does not work.

Finance Director Miller noted that removing the capital is possible. The first two do not have capital, but the last three do. There is a mechanism to remove the capital; that is easy, as shown in the flow chart. The question is whether to sweep what is left over into a single fund. That is the remaining question.

Commissioner McRoberts asked if the question boils down to whether the surplus stays in one budget or if it stays in five buckets.

Chair Schroeder questioned whether it is easy to remove the capital.

Finance Director Miller responded that when the money is removed, right now, all of this cash is discretely presented in the financial statements. That is already there. He explained the capital will get blended with other funds. Separate CIP funds can be created, but there is no good mechanism to display every separated fund in the financial statements. The financial statement would get quite large.

The Commission suggested having a discretely presented License Center capital fund and another discretely presented License Center operating fund. This will get to better transparency for citizens.

Finance Director Miller noted the general fund and Parks and Rec funds also have capital funds; they are just not discretely presented.

The Commission discussed pulling out the License Center, to display operations and capital; also, how to separate the operating funds from the CIP.

Finance Director Miller noted there are generally accepted accounting principles, which staff will continue to follow; but moving the capital out from the operating and still showing the reserve funds is easy to do.

Commissioner Bachhuber commented the cash reserve fund is there to provide insurance for departments. It is unnecessary to provide insurance on 5 funds at a premium when it can be provided across all funds at once. It costs the City less on unused capital when it is done across the board. This does not reduce anyone's budget.

It was discussed what would happen if there is a deficit. It was suggested that the City should budget for increasing the cash reserve fund the year it is needed.

Commissioner Bachhuber moved, seconded by Commissioner Murray, to propose that the Council adopt the strategy that cash reserve policy should be one where the City removes the capital funds, creating CIP funds for those accounts, and sweeping any excess. Once all those funds are at least at a minimum, any excess would go into a centralized account which the Council would be expected to take action on, whether that is for to help shore up CIP deficits or for tax relief or for any other purpose. Those amounts would not just sit in cash reserve funds.

Commission Discussion

Commissioner Zeller expressed concern about the last box on the flowchart. He would like to see a little more framework around a specific recommendation. Something to provide guidance would be a prudent thing to do, and he would not support a motion without those parameters.

Chair Schroeder suggested the motion be modified to indicate this concept can be presented to the Council and the FC could then look at it again and add more details. If the Commission puts a lot of time into it, and the Council does not like it, then it would return to square one.

Commissioner Bachhuber added this may allow the City to have smaller cash reserve targets. And if the CIP is pulled out, it is no longer masking the amount of excess that exists within those funds. This makes it clear what is needed and it is called out what is extra. There is no need to be more specific right now. He indicated he is comfortable in proposing this to the Council and receive feedback from them. Further, he is not inclined to put much more effort into it, without knowing of the Council's support.

Commissioner McRoberts concurred there is a philosophical discussion to be had first, among the Council.

Commissioner Zeller stated as a concept to move forward, he will support the motion.

Chair Schroeder summarized that the motion calls for page 2 of the staff report as the proposal, with the addition on the 4th box of ensuring that no individual box is less than its minimum target.

Finance Director Miller asked for clarification on the term "excess" cash reserve targets.

Commissioner Bachhuber clarified it should be excess of the target amount. Everything above the midpoint, while ensuring all of the funds are above the minimum. This is a proposed policy, for the Council to consider.

Commissioner Harold commented that the midpoint would then effectively become the new maximum, if a fund is never allowed to grow above that midpoint.

Finance Director Miller noted the target reserve levels are reviewed annually.

Commissioner Bachhuber amended the motion, and Commissioner Murray accepted the amendment, to clarify that the City would sweep anything in excess of the maximum of the target reserve levels for each fund, ensuring each fund has its minimum amount. The City will review the maximum and minimum of those funds.

The amended motion carried unanimously.

Chair Schroeder stated she would like to see the numbers with capital taken out.

Member McRoberts asked how the Communications fund is funded. Finance Director Miller noted the funding comes through franchise fees. There are more expenditures than revenues, in the 2017/2018 budget. A course correction will be needed at some point. The expenditures will have to be adjusted. The franchise fees being taken in are already at the maximum allowed by State law.

Review 2018 Annual Work Plan

Chair Schroeder asked whether April is the earliest time for reviewing year-end reserve funds.

Finance Director Miller responded that is the earliest those finalized numbers will be available.

Chair Schroeder suggested moving the discussion up to March, even knowing unaudited numbers will be used. She also suggested a policy review later in the year, since the FC's work is based upon the policies.

Chair Schroeder asked whether the FC can review the 2019 levy any earlier than September.

Finance Director Miller responded the City Manager-recommended budget will come out late August, so the earliest it can be seen by the FC is in September.

Chair Schroeder noted the budget and the levy are the biggest things that happen in the year, and it would be wonderful to move them up, if possible.

Commissioner McRoberts stated a discussion about what the FC's role is would be helpful, especially after seeing how the Council responds to the policy recommendations above.

The Commission concurred.

Discuss Topics for the Joint City Council-Finance Commission Meeting

Finance Director Miller asked about March 12 or March 26 for a joint meeting.

The Commission decided on the joint meeting with the Council on March 26, 2018.

Finance Director Miller summarized he will present a handful of questions to the Mayor regarding the acquisition of the strip mall housing the License Center, and he will also extend an invitation on the FC's behalf for the Mayor to attend the March 13th FC meeting.

Identify Discussion Items for the Future Meetings (March 13, April 10, May 8)

- Review 2017 Investment Performance (Mar)
- Select Chair and Vice-Chair (Apr)
- Review 2017 Year-End Cash Balances (Apr)
- 2019-2038 CIP Review (May, Jun)

Commissioner Murray stated he made an inquiry about what is going on with the State Investments Board, and has received no reply.

Finance Director Miller responded that he is not surprised that that response has not been a priority.

Adjourn

Commissioner Zeller moved, seconded by Commissioner McRoberts, to adjourn. **The motion passed unanimously.**

Meeting adjourned at 8:14 p.m.