

**Finance Commission  
Meeting Minutes  
March 12, 2019**

**Roll Call/Announcements**

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

**Commissioners Present:** Robin Schroeder, John Bachhuber, Edwin Hodder, John Murray, and Jack Reif

**Commissioners Absent:** Matt Harold, Malcolm McRoberts

**Staff Present:** Finance Director Chris Miller

Finance Director Miller stated the City Council interviewed Commission applicants. One did apply and then dropped out with one coming in later who was told it was past the deadline. He noted there are still two open vacancies for the Commission, no one interviewed, and the Council will be discussing this at the March 25<sup>th</sup> Council meeting.

Mr. Miller stated on March 18<sup>th</sup> the City Council will be discussing the recommendation the Commission brought forth regarding the creation of a Cash Carry-Forward Cash Reserve Fund.

Mr. Miller stated on February 25<sup>th</sup> the City Council authorized up to three million dollars of public finance or business subsidy to a company called Colder Products who was looking at Twin Lakes. This is a TIF assistance and not to exceed amount.

**Receive Public Comments**

Mr. Vince Trovato, 2250 Victoria Street, stated he had a couple of comments based on the last Finance Commission meeting. He stated he was pleased the Commission is addressing the TIF issue because he was not sure that all the due diligence that should have taken place with the Colder Company has been done. As an example, one of the commentaries from the City Council meeting was that it was unlikely that anyone would take over that space in the foreseeable future and using that logic, the Council decided to accept the current level of property taxes for the next ten years which does not make any kind of logical sense because not only does the City not gain anything on taxes but resources that the City needs to pay for, Police, Fire and other resources and roads increase as a result of that. The City loses by incenting a company, which is a thirteen-billion-dollar company whose CEO earned thirty million dollars in 2018. Meanwhile the City does not have enough money to pay for the police and fire. He thought it was really important that TIF is looked at in every instance because of the very large numbers that is being dealt with.

Mr. Trovato noted in the minutes the company was spelled Kohler and should be Colder.

Mr. Trovato stated in regard to the IT Recovery, the IT charges to other cities seem to be based on personnel costs and some equipment costs but he did not see anything in terms of facility overhead or administrative overhead. He thought it made sense for the City to charge a market rate in addition to all of the other charges for Administrative costs, for HR costs and for the Facility costs. It should all be built into the charges as well. He stated if the costs are being included it was indicated in the PowerPoint distributed for the meeting.

Commissioner Murray asked if the TIF District was specifically for pollution abatement or for some specific reason the company gave the City.

Mr. Trovato was not sure but thought the general comment was to prepare the site in some respects, but he did not know how the exact number were arrived at.

Commissioner Murray stated it was his understand that the City was doing TIF Districts primarily to do pollution abatement.

Mr. Trovato thought that is a burden that should be absorbed by the owner rather than the City. He stated in addition to that the City Council made some promises but legally he was not sure that the City is fully obligated because there is a TIF District 21 that is proposed and is still subject to a public hearing as well so he thought the decision could be reversed. He felt this was a poor decision that was made.

### **Approval of Meeting Minutes**

Chair Schroeder asked if there were changes.

Commissioner Murray stated line 251 should be changed to: "Commissioner Murray".

Commissioner Reif asked if the word revealing on line 114 should be reviewing.

Chair Schroeder thought the entire sentence should be reworded. She stated the sentence should read "Chair Schroeder stated the number in the packet was not overwhelming but enough to be looked at."

Chair Schroeder stated lines 122-124 should be changed to: "Chair Schroeder thought the only time that came up was when the Commission was caught by surprise when looking at the endowment fund."

Chair Schroeder stated line 83 should be changed to: "Chair Schroeder asked if there were any changes to the December 11<sup>th</sup> meeting."

Chair Schroeder stated line 152 should be changed to: "changes".

Mr. Miller stated line 70 should be changed to: “Colder”.

Commissioner Bachhuber moved, seconded by Commissioner Reif to approve the February 12, 2019 meeting minutes as amended. **The motion carried unanimously.**

### **Receive Finance Commission Recommendations Tracking Report**

Tabled to next meeting due to Commissioner Harold’s absence.

### **Receive Overview of the City’s Information Technology Function**

Finance Director Miller stated in October 2017, the Finance Commission received a general overview of the City’s Information Technology function, which focused on the function’s business model and financial results. Recently, the Commission requested a supplemental overview to gain greater insight on the City’s IT operational policies and procedures.

Mr. Terre Heiser, IT Manager, made a presentation to the Commission on the IT Business Model history and how it has evolved.

Commissioner Bachhuber stated during the Public Comment section, there was a question around covering overhead and he asked for more information on the annual operating charges and if it includes overhead as part of the load.

Mr. Heiser stated at this time the City has not had any operating costs that are associated with Finance or HR.

Commissioner Bachhuber asked if the City charges for facilities based on, for example, a cubicle costs per year.

Mr. Heiser stated the City does not, with the twenty staff, the City cannot staff everyone, at least ten of the staff is offsite. On the opposing side, those cities do not charge back into the group for their space either. He thought a lot of it is by design.

Commissioner Bachhuber asked if the other municipalities and government agencies pretty accepting of what Mr. Heiser determines for Common Good Services or is there a lot of time spent negotiating on how things are going to work and taking orders and requests. He wondered how it is decided what kind of service is going to be offered.

Mr. Heiser stated he thought the group had the advantage in that the agencies in themselves can become very small such as Gem Lake, which is the smallest agency in the group with one full time employee and 400 residents. He thought to that point the residents look to Roseville and its staff for that type of direction. Issues are tried to be worked out at the meetings.

Commissioner Murray asked where the off-site people work.

Mr. Heiser stated some of the people work at different City Hall's, rotating around the different cities to handle emergencies if needed.

Mr. Miller stated even though the employees are off-site, at different locations, the employee is still connected to the same network domain.

Mr. Heiser continued with his presentation on cost sharing – personnel and core services along with recoverables.

Mr. Miller stated the recoverables charges are costs being shared among the thirty-three different agencies. He stated it would be a different conversation if the City had to secure the network with just local dollars as opposed to having a regional sharing supporting that same exact network. While there is some direct savings the City has on the cost savings, there are also some indirect pieces that come into play where the likelihood of the City having the robust defense systems for the City's networks might be entirely different if the City were a stand-alone function. He stated the alternative would be to have the complex systems in place but bear all of the costs locally and would be before the City Council on a regular basis asking for more money. This way the City can distribute the costs a little more over a larger service area.

Commissioner Bachhuber wondered if a lot of the costs are not billed on a per user basis, the costs are more fixed or is the City able to negotiate a lower per user rate because it is spread over a larger base of users.

Mr. Heiser stated for things that are associated with a client license, the group will see favorable pricing. He stated the size of the organization will allow favorable pricing on enterprise applications.

Mr. Heiser continued with his presentation on cost sharing of capital – software and hardware.

Commissioner Bachhuber asked for more information on security awareness.

Mr. Heiser explained how the organization teaches security awareness. He continued his presentation on active directory authenticated services and centralized data centers with the Commission.

Commissioner Reif asked if the organization has detected many attempts to try to hack into the system by outsiders.

Mr. Heiser indicated the organization has. A couple of years ago there were many attempts to get into the system. He noted people would be surprised at the number of attempts hackers try to get through comcast connections. He stated the organization keeps active maintenance on

everything within the system and continuously updates the firewalls of the system. He stated that even a home user has troubles.

Ms. Cynthia White, 2489 Churchill Street, asked if Mr. Heiser also managed the computerization of the water towers.

Mr. Heiser stated the organization indirectly manages them. Water towers would be a part of the AMR System. The primary support of that is the contracts of the utility department would have. His organization would support whatever client software that is needed to access that including the security of that.

Chair Schroeder thought the presentation was very enlightening and answered all of her questions.

### **Continue Discussion on CIP Review Process**

Finance Director Miller stated at the February meeting the Commission continued its discussion on potential changes to the Capital Improvement Plan (CIP) review process. The Commission affirmed its interest in creating new evaluation procedures for higher-cost, asset additions valued at \$500,000 or greater and higher-cost asset replacements valued at \$500,000 or greater that feature substantial changes from their original size, functionality or purpose.

Mr. Miller stated the Commission also recommended adding a look-back procedure that would determine whether the asset additions/replacement as defined produced the expected outcome.

Commissioner Reif thought the look back was a good idea as a way to learn from previous estimates so as the City goes forward everything can be taken into consideration and learn from past estimates where things might have been missed.

Chair Schroeder agreed.

Commissioner Bachhuber stated he liked looking at the sample in the neighborhood park buildings, he liked the approach that is in the information. He thought having the percentage of over/under helps to frame it. In general, he thought this was directionally correct and a good way to look at it. He thought having the net cost is important and understanding the operating cost assumptions.

Chair Schroeder agreed and thought having the example in the information will help because theoretically a look-back could be put in, but it is an example and the Council can look at it to figure out what is being shown to them, so it is not misinterpreted.

Mr. Miller stated the look-back might have a different look depending on the initiative, project, or whatever it might be.

Commissioner Hodder stated he liked it because sometimes it is needed to see the application of how the concept would work.

Chair Schroeder agreed and still supported putting the guidelines in.

Mr. Miller indicated he left the guidelines in as well. He noted this will go before the City Council on March 25<sup>th</sup> for the Commission to review with them.

Commissioner Bachhuber moved, seconded by Commissioner Reif to propose the Capital Investment Policy as Amended in the documents, including the example on how the City would see it interpreted in the look-back. **The motion carried unanimously.**

### **Consider Selecting a Chair, Vice-Chair, and Representative to the Ethics Commission**

Finance Director Miller stated City Code Chapter 201.06 requires the Finance Commission to annually select a Chair, Vice-Chair to perform on-going duties; and a representative to serve on the City's Ethics Commission as needed. The Chair and Vice-Chair positions carry the same decision-making privileges as all other members, but do have some additional administrative duties.

Finance Director Miller indicated Commissioner Schroeder is currently Chair, Commissioner McRoberts is currently Vice-Chair and Commissioner Harold is currently the Ethics Commission representative.

Chair Schroeder wondered if the Commission wanted to table this item until next month when all of the Commissioners will be at the meeting.

The Commission agreed to table this item.

### **Review 2018 Investment Portfolio Performance**

Finance Director Miller stated the City's Investment Policy is rooted in industry best practices and has been modified to accommodate the limited resources available to manage the City's investment portfolio. This limitation necessitates the use of relatively simple investment strategies that require only a nominal amount of time.

Mr. Miller reviewed the investment portfolio performance and policy with the Commission.

Commissioner Bachhuber asked Mr. Miller to review the thinking behind the fact that the average duration has increased by two years from 2016 to 2018, given how flat the yield curve is right now.

Mr. Miller stated this is not due to the investment strategies, the City has gone shorter in some of the terms in recent years but what has changed is the City has had to sell off some of its investments earlier that had some shorter maturities and to create some additional cash flow for some Capital Investments that were made which were not part of the cashflow forecast.

Chair Schroeder asked for clarification as to why the paragraph shows a different interest rate than the chart.

Mr. Miller stated the rate should be 2.93 percent. He noted this was a typo.

Commissioner Murray asked how much of a paper loss did the City take.

Mr. Miller stated in the past year the paper loss was \$114,000 for 2018, only if the City sells it.

Commissioner Bachhuber asked if the realized loss of \$43,000 included in the portfolio earnings as displayed.

Mr. Miller stated it is not shown here, it is shown in the public financial statements when the City actually shows the realized gains and losses.

Mr. Miller noted the policy was last updated in 2015 and is part of the packet. He was not sure any changes needed to be made because the policy is meeting the City needs as written.

### **Review Discussion Topics for the Joint City Council-Finance Commission Meeting on March 25, 2019**

Finance Director Miller stated a joint Commission Council meeting will be held on March 25, 2019 to discuss changes in finding strategies for the CIP, 2019 City Manager recommended Budget & Tax levy, establishing a Cash Reserve (Cash-Carry-Forward) Fund and changes in the Capital Improvement Program (CIP) Review Process.

Chair Schroeder thought the topics listed were good to discuss with the City Council.

### **Identify Discussion Items for the Future Meetings**

Chair Schroeder stated the next agenda would include discussions on the appointment of Chair and Vice Chair along with the Cash Reserve Levels discussion and reviewing the Joint Council meeting.

Commissioner Murray stated he has been working on the Investment Policy and State changes and he would like to make a presentation on that.

Commissioner Hodder stated he would like to have a discussion on the TIF Policy for the City.

Mr. Miller stated there is going to be a presentation on March 18<sup>th</sup> at the EDA meeting regarding the TIF Policy and thought that might be the best introduction to future conversations.

Chair Schroeder thanked everyone for working with her while she has been on the Board and wished everyone luck and to reach out to her if needed. She stated she has enjoyed being on the Commission.

Commissioner Bachhuber echoed Chair Schroeder's comments. He thought the Commission has made great strides over the last several years and looked forward to seeing how this group helps the City make its decisions.

### **Adjourn**

Commissioner Murray made a motion, seconded by Commissioner Reif to adjourn. **The motion passed unanimously.**

Meeting adjourned at 8:12 p.m.