

**Finance Commission  
Meeting Minutes  
March 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, John Bachhuber John Murray, Edwin Hodder, Matt Harold

**Commissioners Absent:** Malcolm McRoberts and Peter Zeller

**Staff Present:** Finance Director Chris Miller

Chair Schroeder noted that this would have been Commissioner Zeller's final meeting on the Finance Commission (FC), and she thanked him for all his service. She also announced that Jack Reif has been appointed to the FC and will begin attending meetings in April.

Finance Director Chris Miller noted he and Chair Schroeder have discussed that he will begin debriefing the FC on what the Council has discussed at recent meetings, particularly those issues related to the issues related to the future work of the FC.

Mr. Miller reported that at the February 26<sup>th</sup> meeting, the Council agreed to provide McGough Construction with a Tax Increment Financing package up to \$1.5 million over an extended period of time, for its project in the Twin Lakes area. McGough has proposed to build out their headquarters and consolidate employees all to one location.

Mr. Miller further reported that at the March 12th meeting, the Council authorized a community survey, something it has done every couple of years. About 85 percent of the questions asked in 2016 will be asked again in 2018, to track how sentiment has changed over time. Calls will begin in April, with results tabulated in May.

Commissioner Bachhuber noted that in the past, a change in methodology has been discussed in an effort to reach millennials. He asked if they are tacking a different approach this year to reach those without a landline.

Mr. Miller responded there will not be a methodology change. From what he recalls, it does not skew the results, as they are still hitting all age groups so that it is representative of the community.

Commissioner Murray commented on the TIF for McGough, noting that TIF is to be primarily used for contamination sites.

Mr. Miller responded that there are policies governing TIF, and that TIF is not exclusively used for contamination sites, though that is one of the eligible scenarios. The applicant has to demonstrate their project would not move forward without TIF assistance.

Chair Schroeder noted that TIF would be a good policy for the FC to look at in the future.

Mr. Miller continued that some changes will be made at the License Center, to help implement a succession plan. A retirement has also allowed the City to bring in another half-time employee, which will be significantly helpful. This was a budget-neutral item.

### **Receive Public Comments**

There being no one present wishing to speak to the Commission on an item not on the agenda, the Chair moved to the next agenda item.

### **Approve Meeting Minutes**

Commissioner Bachhuber moved, seconded by Commissioner Murray, to approve the February 13, 2018 minutes as presented. **The motion passed unanimously.**

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

Finance Director Miller reported that nothing has changed since the January 2018 FC meeting.

Commissioner Harold noted he will update the report following the next joint meeting with the Council.

### **Continue Discussion on Topics for the Joint City Council-Finance Commission Meeting**

Chair Schroeder presented the four items to be discussed with the City Council, with the following suggested presenters:

1. A recommendation on whether to revise the Capital Investment Policy regarding the incorporation of a CIP Priority Ranking process (Dec 12, 2017 Discussion). **(to be presented by Commissioner McRoberts)**
2. A recommendation on the final disposition of the \$850,000 in excess TIF proceeds from the recently decertified TIF District #11 (Dec 12, 2017 Discussion). **(to be presented by Commissioner Harold)**
3. A recommendation on whether to fund water, sanitary sewer, and storm sewer infrastructure replacement through the property taxes rather than utility base rates (Jan 9, 2018 Discussion). **(to be presented by Commissioner by Hodder)**
4. A recommendation on whether to establish a Cash Reserve (Cash Carryforward) Fund (Pending Feb 13, 2018 Discussion). **(to be presented by Commissioner Bachhuber)**

Chair Schroeder stated she will do introductions on each item and let the above-named Commissioner give the presentation.

Commissioner Bachhuber noted it would also be helpful to have a discussion on how the City Council views the role of the FC as an advisory body.

Chair Schroeder concurred that is a good discussion to have, and she would be happy to lead that.

Mr. Miller explained he will provide the Council with one-page overview of the items to be brought forward at the joint meeting. He noted it could be an hour before the FC discussion begins, as the Council will be discussing items related to Fire Department staffing first.

### **Discussion on Proposed Property Acquisition at 2719 Lexington Avenue**

Chair Schroeder recapped that the purpose of this agenda item is to present additional information to the Finance Commission regarding the acquisition of 2719 Lexington Ave. The FC members have received several pieces of information since the last meeting, and Finance Director Miller is here to present that information.

Mr. Miller recalled that at the previous FC meeting, there were a lot of decision points that the Council had been contemplating for a number of years for a location for the License Center. He referred to his staff report, which addressed several questions raised by the FC in February. There was a fair amount of conversation at public meetings, but perhaps some of those conversations were not making it to the FC. He noted that staff needs to do better at communicating that to the FC members. He went on to highlight that the valuation of the property by Ramsey County was for less than the purchase price of \$2.3 million, which is not uncommon in real estate transactions of this nature. The valuation is always at least a year old, due to the valuation process. Additionally, there are many nuances that go into a real estate transaction, and at the end of the day, the agreed-upon amount is the agreed-upon amount.

Mr. Miller continued that another factor was Gaughan's interest in redeveloping the old Fire Station. He noted that the City approached Gaughan, as this property was not on the market for sale. There were some questions about City property taxes. It is true that some of the property comes off the tax rolls, but the City gets what it levies. The City will still get what it levied for, but someone else is paying for it. Regarding how the City will finance the purchase, the Council still has to make some decisions in March; the closing date is scheduled for March 30<sup>th</sup>. The City has to come up with \$2.3 million and is currently undergoing due diligence. The surplus monies from the License Center and tenant revenue will be enough to help finance the acquisition and the ongoing operating costs in the short-term. The Council has not yet decided on the long-term, so it does not know how long it will be a landlord on this property.

Commissioner Bachhuber inquired about how the FC and other Commissions operate. He inquired whether it is possible for Commissions to gain insight into the private information, so it can do its duty in advising on financial matters.

Mr. Miller responded that this is a question he will pose to the City Attorney. The privilege of going into a closed meeting is bestowed to elected officials only, not advisory groups or citizens. Certain members of staff are allowed, and that is very limited to the folks who need to be there.

Chair Schroeder added there is an open meeting law to follow, and there are non-disclosure agreements as well. Typically, when working with a client on a deal, she has to sign a nondisclosure agreement so that she is bound not to discuss it. She is not sure how that plays in City government.

Mr. Miller stated it is a very narrow window when the City can close meetings to the public, and property acquisition is one of them.

Commissioner Murray asked who the Council is relying on for advice other than themselves.

Mr. Miller responded it is primarily the City Manager. While Mr. Miller has been part of some meetings, not all, he has not given advice as to whether they should buy this property or not. There are other third parties involved who are not in the room in closed meetings. Third parties, for example, have been used to assess the environment, the condition of the building, real estate professionals, along with tenant rights professionals. All of that is being provided through the City Manager to the City Council. The City Attorney is always involved in any closed session.

Commissioner Bachhuber noted the option on the Fire Station is merely an option, not an obligation. It seems like the City does not gain anything by it.

Mr. Miller stated that having some certainty that it could sell sooner than later was a factor. He suggested that was another consideration as to how the final price was arrived at.

Chair Schroeder brought up the issue of the remodeling and maintenance of the property. Originally remodeling costs were set at \$500,000 to \$600,000.

Mr. Miller responded part of the due diligence process is gathering this information. The idea is that the City will have an idea of what capital investment is required in the near-term as well as the long-term. The City will have that information as it gets closer to March 30<sup>th</sup>. Some pieces may be unknown. The City has been a tenant since 1999, but it does not have a great idea of what maintenance records are out there.

Chair Schroeder summarized the City does not know how much money will have to be put into the building.

Mr. Miller recalled that the Council was uncomfortable with the previously estimated \$500,000 in necessary repairs, if the City did not own the building. If the City does own the building, there has to be some level of investment. Right now, the comfort zone is less than a half million. In May and June, the Council will bring up this issue again. There are some other space needs for the City, so this will be a good time to have a wider discussion of space needs. That will help dictate how much will be spent on the License Center.

Commissioner Murray asked who will act as landlord, since this agreement puts the City in a position of being a landlord.

Mr. Miller responded that as part of the package, Gaughan Companies, which is a professional property management company, will be retained by the City for the first year at a fee of up to \$2,000 per month. That will help the City during the transition, to help decide how to manage the property for the long-term. No one on City staff has property management experience, to his knowledge.

Commissioner Murray asked whether the City will be willing to invest in build-outs from current or future tenants.

Mr. Miller responded the Council is not sure how much investment it wants to make long-term.

Commissioner Murray noted that 25 to 30 percent of the property is vacant right now.

Mr. Miller confirmed that approximately 25 percent is not leased right now. The City has to determine whether to lease out those spaces or to use them as storage.

Chair Schroeder commented that seems to be expensive storage.

Commissioner Murray asked whether the vacancy rate has been factored in.

Mr. Miller responded what has been factored in is the tenant income from what is being leased right now. The City has a 5-year lease.

Commissioner Bachhuber asked for clarification on how the purchase will be paid for, as the Mayor's letter states the financial terms somewhat differently than the staff report.

Mr. Miller clarified that existing tenant income plus what the License Center will save by not having to pay its \$70,000 in annual rent will combine to cover the cost of the City's financing. Those are the forecasts for the next three or four years.

Commissioner Murray asked about the City's acquisition costs.

Mr. Miller responded that the City's principal and interest payments would be financed over something like 15 years, and that debt service would be covered by tenant income and the City's former lease payments. There are some assumptions built into this program. Capital improvements have not been factored in. The farther out, the dynamics change, as at some point capital investments will be required.

Commissioner Murray commented that, based upon his experience with his clients, using the spaces for storage tends to have a negative impact on other tenants in the shopping center.

Mr. Miller indicated that a lot of seasonal equipment for Park and Rec needs storage space.

Commissioner Murray noted there are no wide doors for loading and unloading.

Mr. Miller concurred. Heavy equipment cannot be stored there. Perhaps it will be things in boxes and things up on shelves.

Chair Schroeder commented this is very expensive per square foot for storage.

Commissioner Murray commented typical storage is \$8 per square foot and typical shopping center costs \$16 per square foot.

Commissioner Bachhuber commented that if the mall owner was not the City and they decided to make a middle portion of it into storage, the City would have an issue with it. It is kind of like blight to use part as storage. The goal is to keep the strip mall an active and welcoming area.

Commissioner Murray concurred, noting retail is not light industrial.

Commissioner Bachhuber stated he hopes the City would have a problem with another retail owner turning the space into storage.

Chair Schroeder noted Mr. Hess' comments questioning the validity of using the mall for storage. His concerns were the low ceilings; that trucks cannot move in and out for loading; and that a real warehouse can be rented for a lesser cost per square foot.

Commissioner Bachhuber stated the City would be better off leasing out those space, especially if the City is paying for a landlord for the first year.

Chair Schroeder stated she is having a hard time thinking of buying this strip mall and using it for storage, at such a high cost. She asked what would have to happen to break this deal.

Mr. Miller responded that if the City finds something with regard to the condition of the site or the building itself during the due diligence period. Ultimately, the Council has the option until March 30<sup>th</sup> to back out. At this point, the City is heading towards that March 30<sup>th</sup> date to buy the property.

Mr. Miller noted the property owner had insisted on a short timeline.

Commissioner Murray commented he is uncomfortable with the rush towards buying the building. He would like to suggest the Council put it off buying the property for a month so that all the details can be considered. If it is worth \$2.3 million, the City should raise the valuation, raise the taxes, and sit back and wait.

Commissioner Bachhuber noted he had looked up the tax record on the property. He is curious as to how common or uncommon it is for market values for commercial properties to stay exactly flat for three years, as it was the same in 2014, 2015, and 2016; it was \$1.514 million. Then it went up in 2017 and significantly in 2018.

Mr. Miller responded he has seen this happen before, where a property will go several years before it is reappraised. The County has algorithms to help arrive at those figures. When it comes to commercial properties, a lot of it goes based off what the lease per square foot is. If the leases are stagnant, there may not be a lot of change in property valuation. The County doesn't ask for that information every year. Any property assessment is always lagging the market, in both residential and commercial.

Commissioner Murray noted in a residential market, there are a lot of sales to provide data, so those figures are moving regularly.

Commissioner Hodder recalled that after the recession, commercial was declining in value and residential was going in the other direction. It is a cyclical movement; they move at different times.

Chair Schroeder stated the storage piece is still troubling. If the City is doing seasonal storage, she questioned whether proximity to the City Hall is important. It seems like it would cost a lot less to use part of the Fire Station.

Commissioner Hodder recalled that previously the FC was given materials about the maintenance shed facilities. He asked whether that fits into this discussion.

Mr. Miller noted that is one of the discussions the Council wants to go back to. The City has a lot of unmet storage needs. The City has the Fairview Fire Station being used for storage, and the City is also leasing warehouse storage space through 2019. A lot of that is Public Works equipment. Some of that is not suitable for the strip mall storage. The Council wants to discuss how to improve the storage capabilities on the existing Public Works building and the yard. A study was conducted in 2017 that examined that issue and a consultant presented a number of options of how to better utilize the space, but that had a hefty price tag.

Chair Schroeder noted if the City renovates the strip mall, and then has to tear the whole thing down to build something for Public Works or different types of storage. It seems like the long-term vision is lacking, and that is troubling. She noted Commissioner Murray was trying to make a motion.

Commissioner Murray moved to recommend the Council delay for a month on this acquisition for more public comment.

**The motion died for lack of a second.**

Commissioner Bachhuber indicated this is a worthy idea, but he does not feel like flailing like at a windmill tonight.

Mr. Miller noted there is an opportunity for public comment at the start of each Council meeting.

Chair Schroeder expressed concern about the lack of long-term vision about this purchase. This pile of money will end up being a lot larger than \$2.3 million.

Commissioner Bachhuber anticipated this building will stand for 5 or 10 years and then the whole thing will be leveled.

Commissioner Harold noted there was an attempt to create a long-term facilities management plan. He asked whether storage was considered.

Mr. Miller responded the study was completed; it has not resulted in a long-term vision as of yet. Storage needs assessments, and a number of options were presented. The Council received the report and still digesting what it means. At some point a vision plan or process should come together, but that has not come together.

Commissioner Murray asked how many square feet the City rents now.

Mr. Miller responded the City is renting 5,000 to 7,000 square feet, and that figure does not include the Fire Station.

Chair Schroeder concurred with Commissioner Murray's sentiment about cautioning against a rush. It seems like the rush on this purchase is uncomfortable. She questioned what the harm would be if the City backed away from this and decided to wait.

Mr. Miller indicated the City would keep paying rent, and the question of capital investment would still be present. Beyond that, it is hard to say.

Commissioner Murray asked if the City has considered splitting up the property.

Mr. Miller responded the City did investigate splitting the property and taking ownership of the north end, or a freestanding building in the parking lot. Also discussed was locating the License Center in Veteran's Park. The Council was concerned about impeding on the Park and its activities. Even if the License Center was a daytime thing, it would impede on some parking needs as well as some of the activities on the field. Regarding splitting the property, the question is if that was where the City would want to put a building. It would not have addressed the long-term storage needs as well.

Chair Schroeder suggested hiring a consultant to advise the City on the different pieces. The storage piece is separate from the License Center. They are very different needs. She cannot imagine spending that kind of money for seasonal storage. This seems very rushed. It is interesting that the landlord wants to rush it. She suggested taking more time.

Commissioner Murray noted it is highly unlikely someone else is out there with a higher offer.

Commissioner Bachhuber noted the City has the leverage as the biggest renter in the strip mall.



Chair Schroeder asked if the FC wants to do anything at this point.

Commissioner Bachhuber suggested Commissioner Murray remake the motion, and he would support it.

Chair Schroeder suggested making a motion suggesting taking more time to evaluate the options.

Commissioner Bachhuber moved, seconded by Commissioner Murray, that the Finance Commission recommend that the City Council take additional time to consider the purchase of the License Center building, and that they not let the March 30<sup>th</sup> deadline rush their deliberation of proper needs for the City.

Commissioner Murray emphasized that all real estate deals are negotiable, so a couple more weeks should not make a difference to the seller.

Commissioner Harold suggested that part of the FC's recommendation should outline some of the specific apprehensions discussed tonight. If the City's intent is to use the vacant spaces as storage, the purchase price is too high and there might be better options for more cost-effective storage. The City needs to seek out other options. His biggest sticking point is the cost for storage. He also suggested including language regarding the lack of a long-term vision. This financing is tenable with current rents in the short time, but without a long-term plan, it is difficult to assess the long-term financial feasibility of this plan. He can support the motion if it is narrowed down to the financial aspects of the purchase.

Commissioner Bachhuber added the following language to the motion: that the FC is specifically concerned with the purchase price of the property given the intended use, and the FC believes there are most cost-effective storage options for the City, and that the lack of long-term vision for the plan creates financial risk for the City.

Commissioner Murray accepted the amendment.

### **The motion carried unanimously**

Chair Schroeder noted this will be another discussion point for the joint work session with the City Council.

### **Review 2017 Preliminary Year-End Cash Reserve Levels**

Finance Director Miller presented a staff report showing the 2017 year-end cash reserves for the 5 operating funds: General, Parks and Rec, Communications, Information Technology, and License Center. He highlighted the 2016 cash reserves, the surplus/deficits in 2017, the amounts reserved for donations or for capital improvements, the end-of-year cash reserves, the percentage that reserve level reflects, and the amount by which each of the 5 operating funds exceeds the Council-approved minimum cash reserve amounts.

Mr. Miller explained the License Center contributes \$300,000 to the general operating fund each year. He also noted the License Center had a larger than expected deficit (\$190,000) due to the relocation costs it incurred in taking over the State Farm tenant space next to the existing License Center. He noted that the Council is aware that the budget \$90,000 deficit in the License Center is something that will have to be addressed going forward. There is a lot of surplus money generated at the License Center, but it does have a ceiling.

Commissioner Bachhuber commented the mid-range and \$644,000 below the high target reserve level. He thought the intent of his amended motion last month was to look at it fund by fund by fund, and then sweep each fund.

Mr. Miller responded he believes that is what he did in his methodology.

The Commissioners and Mr. Miller discussed the previous discussions about methodologies and clarified the goal of looking at each fund on its own and then sweeping each fund.

### **Review 2017 Investment Portfolio Performance**

Finance Director Miller reported that the portfolio earnings in 2017 was 2.7%, which is beating the 10-year benchmark of 2.4%.

Commissioner Murray asked if fees are charged.

In response, Mr. Miller explained the fees are embedded on the rate that is given. There is not an ongoing additional fee.

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

Chair Schroeder noted she had discussed this with Commissioner McRoberts, and he has thrown his hat into the ring for the Vice Chair of the FC.

Commissioner Murray moved, seconded by Commissioner Bachhuber, to re-elect Chair Schroeder of the FC and Commissioner McRoberts as Vice Chair of the FC.

**The motion passed unanimously.**

Commissioner Bachhuber noted the Ethics Commission only met once last year.

Commissioner Harold volunteered to serve as the representative to the Ethics Commission this year.

Commissioner Murray moved, seconded by Commissioner Bachhuber, to appoint Commissioner Harold as representative to the Ethics Commission.

**The motion passed unanimously.**

**Identify Discussion Items for Future Meetings**

The Commission suggested the following items for upcoming FC meetings: recap of the joint meeting with the City Council; an update on status of 2719 Lexington Ave; discussion on policy of TIF; current TIF districts; and City-owned Property rentals.

**Adjourn**

Commissioner Harold moved, seconded by Commissioner Murray to adjourn.

**The motion passed unanimously.**

Meeting adjourned at 8:11 p.m.