

**Finance Commission
Meeting Minutes
April 10, 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, Jack Reif, Matt Harold and Malcolm McRoberts

Commissioners Absent: None.

Staff Present: Finance Director Chris Miller

Finance Director Miller provided an update on the last couple of City Council meetings. The March 19th Council meeting focused on the 2040 Comp Plan update. It is slated to be adopted by the Council by the end of May.

Finance Director Miller noted that on March 26th, the Finance Commission (FC) appeared before the City Council to make five recommendations. Also, on the agenda that evening was Council approval of another community survey, which happens every two years. There are a few budget-related questions on the survey, though most questions deal with how the community feels about living in Roseville.

Commissioner McRoberts asked why the survey is conducted via phone rather than online.

Finance Director Miller responded that phone is Morris Leatherman's preferred method right now. It is a way of isolating where people live, as it allows hitting individual quadrants throughout the City, in order to gain a representative sample.

Commissioner McRoberts commented that phone surveys will get a certain demographic, and yet there is a certain demographic that will not be tapped into.

Finance Director Miller stated the consultant is aware of that shortcoming. At this point, the consultant still says it is the preferred way to go.

Commissioner Hodder noted that very few people now have landlines, as cell phones are preferred.

Finance Director Miller also noted that the Council discussed the phase II staffing plan for the Fire Department (FD) at the March 26th meeting. They talked about initiating this phase over the next few years, as the City transitions from a paid on-call to a full-time fire department. Also discussed was increased community outreach. There are a lot of questions remaining and a lot of

community feedback that has to occur. Big price tags are associated with that staffing plan, approximately \$800,000 annually, which would be phased in over a few years. The Council asked the FD to proceed with doing some community outreach, but also asked to have a couple advisory commissions weigh in on the proposals. It was suggested that both the HRIEC and the FC weigh in. The Council did not get real specific about what role the FC might play, but a conversation should be had. There are a lot of moving pieces with this plan. One option is for representatives of the FD could appear before the FC. The FD shared a lot of information with the Council, and more research has to be done about available funding models for this plan. The FD will probably not appear before the Council for quite some time, as research is done.

Commissioner McRoberts stated a benchmark would be helpful in any future presentation by the FD. He suggested that a different approach be taken to articulate the FD's requests to the Council. Starting with a benchmark and a description of a service level would be helpful. What he saw was a presentation of extras, which is a hard presentation to win. A numbers-based benchmark might be more helpful for both the Council and public to understand. He would be happy to sit down with the FD to figure out if there is a better way to articulate their story.

Finance Director Miller stated he would pass that along.

Finance Director Miller then highlighted the Council meeting from April 9th, and the effort to revitalize the Roseville circulator bus. The concept of the bus is designed to address some unmet transportation needs in the City of Roseville. The Council heard an initial proposal on the route in January and an updated proposal last night. The Council was eager to get it started and let it evolve organically, as there is enough identified need to begin. The Council committed to a 6-month pilot program, and the cost would be covered by the City, less any donations that might come in by local businesses. It is being modeled by a transportation program happening in White Bear Lake. Other communities do have this service, and a lot of times it is a local non-profit, the City or the County. In this situation, the City would be partnering with a local non-profit. The Council committed to approximately \$8,000-\$9,000 in funding, which would be less with local contributions.

Commissioner Murray asked why the original circulator bus was discontinued.

Finance Director Miller responded he could not recall. It was probably ten years ago, and no one in the Council chambers remembered either. The bus did come to the City Hall campus. It might have been a funding or a ridership issue. The Council asked that question and the non-profit group was going to try to research it.

Commissioner Bachhuber asked if there will be a cost for the rider.

Finance Director Miller explained it is a pay-what-you-can model.

Finance Director Miller summarized that the Council also discussed some Code issues as well as a deer population reduction effort.

Chair Schroeder asked about the financial audit.

Finance Director Miller responded that the audit is done, and staff is working on completing the follow-up work. The auditors will likely make a presentation to the Council in early June.

Chair Schroeder asked if the FC sees the audit after the Council reviews it.

Finance Director Miller responded that is the way it has been done historically.

Chair Schroeder suggested inquiring whether the FC can have the audit before it is presented to review it and then possibly attend the Council meeting.

Commissioner Reif asked who conducted the audit.

Finance Director Miller responded the audit was done by Redpath and Company, who does mostly municipal audits.

Councilmember Bachhuber asked whether the building acquisition closed on the 30th.

Finance Director Miller explained the property closed on Friday, April 6th, for \$2.3 million. The property will be managed by Gaughan Companies for the next year. The City is looking to extend and renew lease agreements. The Council will be discussing this on April 16th. Previous plans had been made to renovate and expand the License Center, but those were put on hold due to high costs.

Chair Schroeder asked about the environmental testing.

Finance Director Miller responded there were trace amounts from the previous gas station on the site. There is some testing that has to take place during winter time and summer time conditions. As part of the closing, an escrow has been set up to take care of any cleanup remediation that might be needed. Another test will be done in two or three months, and if it comes back clean, the City will move on. The only concern now is the vapors. There is a standard for commercial property.

Commissioner Reif asked whether the existing gas station is included in the transaction.

Finance Director Miller responded affirmatively. The tenant operating the gas station does not own the pumps and canopy; the City now owns those. The City is exploring what to do with the empty bays in the strip mall.

Commissioner Hodder announced that the Ethics Commission will be meeting tomorrow evening.

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.

Approval of Meeting Minutes

Commissioner Murray noted a corrected spelling on line 184: “Gaughan Companies.”

Commissioner Murray asked for clarification about “up to \$2,000” on line 185. Finance Director Miller confirmed that figure is accurate as written, as the management fee will decrease if the number of tenants decrease.

Commissioner Murray stated line 225 should include “seasonal” and “needs.”

Chair Schroeder noted the corrected spelling on line 245: “Mr. Hess.”

Chair Schroeder asked about line 125. Commissioner Harold confirmed it is correctly written, though it could be condensed.

Chair Schroeder suggested placing a period after “comes off the tax rolls.”

Commissioner Murray moved, seconded by Commissioner Hodder to approve the March 13, 2018 meeting minutes as amended. **The motion carried unanimously.**

Receive Finance Commission Recommendations Tracking Report

Commissioner Harold noted the tracking report has been reduced substantially since the last FC meeting, in a goal to only carry forward active recommendations. All of the items on the list were presented to the Council a few weeks ago.

Com/missioner McRoberts suggested modifying the status categories to better reflect where the recommendations are at. There should be clarity around whether it is agreed and implemented or just agreed.

Commissioner Harold stated he is attempting to do that with this tool. On the final page, he describes and defines the statuses of recommendations.

The Commissioner discussed the best way to ascribe a status to various issues before the FC.

Oath of Office for New Commission Member Jack Reif

Chair Schroeder administered the oath of office to Commissioner Reif.

Each Commissioner introduced himself/herself and provided a brief description of current employment.

Review City Council-Finance Commission Joint Meeting

Finance Director Miller recalled that the FC presented 5 different recommendations to the City Council. Of those 5, the Council accepted 3 of them and sent 2 back to the FC for further review, study, or analysis. The 2 items sent back to the FC were (1) continue development of CIP priority rank system and (2) continue development of cash-carry forward fund. He asked the group to reflect on what was heard at the Council meeting.

Commissioner Harold recapped the recommendations presented by the FC to the Council. First, the priority ranking system for the CIP. This was kicked back to the FC by the Council for further development. The need is to refine the ranking list itself, with special consideration on how to handle new vs. existing items. That seemed to be where most Councilmembers focused their comments.

Chair Schroeder noted everyone had a take on what those rankings actually meant. For example, some considered the golf course building to be replacement costs and some considered it new.

Commissioner McRoberts noted there was a desire to minimize the perceived amount of new and maximize the perceived amount of existing. To him, the takeaway was for the FC to come back with a different version. The only way to do that is for a couple of FC volunteers to go through 20 or 30 of them, go through a process of understanding what the categorization would be, and make recommendations on that. The suggested categories would then be based on real projects, not on a hypothetical model.

Commissioner Harold stated that would be a worthwhile exercise.

Commissioners McRoberts and Harold volunteered for the exercise.

Commissioner McRoberts indicated the next step is to talk with Finance Director Miller to determine what staff members can be most helpful in working through the list of projects, with the goal of efficiency and not overburdening City staff.

Finance Director Miller responded it will depend on which items are selected. If it is a Police-related vehicle, or a Public Works project, or a Fire Department vehicle, those would be 3 different people. The first place is to start with the CIP document and pick out a handful of projects or categories out of that.

Commissioner McRoberts asked if there is a way to focus on the projects coming up the next six months, which would achieve a representative sample.

Finance Director Miller responded that would be a good approach to getting a representative sample of everything the City does. He can cut and paste that into a document. Then, he can sit down with Commissioners McRoberts and Harold to talk through the projects. It can evolve organically.

Commissioner McRoberts stated that after the discussion is held, it will be easier to assess what is unique or what themes are present. Categorization cannot happen before that.

Chair Schroeder asked if the rankings will be further refined.

Commissioner McRoberts responded he will avoid the word ranking and instead use category; categories can be defined.

Commissioner Bachhuber stated it would be surprising to him that new projects are not showing up in the CIP. Those are major capital expenditures, and that is the point of the CIP.

Finance Director Miller asked about the impetus for looking at the CIP categories, whether the goal is to create discipline in the decision-making process, or whether is there another goal.

Commissioner McRoberts responded the goal is to provide transparency. The Council has made it clear it is not up to the FC to provide priority. But it is a reasonable expectation to have a framework for governance and visibility to residents. Otherwise people think of capital as new investment, but that excludes maintenance.

Commissioner Bachhuber commented that the reason the FC originally took up this effort was in response to the concern about the lack of funding for items in the CIP. So, there are two choices: one is to do less, and the other is to increase revenue. Both are legitimate choices.

Commissioner Harold recalled that the FC reviewed the CIP documents of other Cities, to see what works well in communicating capital expenditure plans. The City of Roseville uses almost the same verbiage as Minnetonka. Also, he recalled that other Cities issue one-page explanations about projects in the CIP, and the goal of the FC was to move towards something similar.

The Commission discussed how to improve the categorization process.

Finance Director Miller noted that some CIP items will be easier than others in terms of categorization, so it will be a nice variety. Then he will follow up with Commissioners Harold and McRoberts.

Commissioner Harold continued to the 2nd item discussed with the Council: use of excess TIF funds the City received at the end of 2017. The FC recommended the \$850,000 in excess TIF funds be used to pay down the internal loan from the street fund for the golf course. Further, that remaining monies needed for golf course construction be taken from park dedication fees, not the street fund. He categorized this recommendation as partially accepted, as the Council accepted the paying back of the street fund with the TIF monies. There was further discussion on the park dedication funds. The Council was more than willing to use park dedication funds to offset the internal loan, but there was not much support for an immediate payment from the park dedication fees to the street fund. He suggested the FC close this item out moving forward.

Commissioner Bachhuber recalled he did not hear the other Councilmembers say anything about paying it off over time, other than the Mayor.

Finance Director Miller stated the Council was in favor of the recommendation on the TIF funds. The only issue remaining is the \$200,000 gap, and the Council will have to make a decision at some point. Once the project is completed in June, it will return to the Council in July and ask for direction to pay off the \$200,000 funding gap.

The Commission decided to close out this issue.

Commissioner Harold continued with the 3rd issue presented to the Council: that no change be made to the utility base rate. The Council indicated that the PWET Commission was also reviewing the issue and would formally decide upon receiving that recommendation.

Commissioner Hodder commented that some of the residents of St. Paul are facing a 23% increase in taxes, after the City lost a lawsuit regarding how churches and non-profits pay taxes. The burden has now fallen onto the residential class to make up that difference. He stated that is why it is important to make sure everyone pays their fair share based on consumption.

Commissioner Harold continued with the 4th issue presented to the Council: the establishment of the cash reserve fund to consolidate all unrestricted funds not derived from donations or earmarked for capital replacements. The Council received the recommendation and kicked it back to the FC to develop it further, specifically, the logistics of separating the capital expenses from the funds and also to reset the reserve balance. He noted that the Council suggested the FC move forward with refining the first 3 boxes.

Chair Schroeder suggested a subgroup begin working on this issue in order to move ahead. She noted that the numbers do not actually tie to the capital needs that are listed, and the question is how far out to go. How much of the reserve should go into a capital fund is the question that needs to be answered first. That is why she had Finance Director Miller send out a 20-year CIP list for each of the 3 funds under consideration. Out of all those reserves that have been building for the License Center, are those funds for the next 10 years of capital items? Or for the next 20 years? Or should it only have enough for the next year?

The Commission discussed extensively the various ways to do an analysis of the capital component of the 3 funds.

Commissioner Bachhuber volunteered to begin this analysis, and Commissioner Hodder also volunteered to help prepare something for the June FC meeting.

Finance Director Miller noted that next month, the current CIP is being revised and will be available for review next month.

Commissioner Harold continued with the 4th issue presented to the Council: delaying the acquisition of 2719 Lexington Ave to allow for more public discussion and the development of a

long-term plan for the site. The Council rejected the recommendation and proceeded with the acquisition. The Mayor seemed to indicate the City plans to have tenants for as long as the City is owner.

Commissioner Murray asked if the financing plan has been made public.

Finance Director Miller stated the plan has always been to issue bonds, and the City Council plans to have specific discussion about that topic at its May 14th work session.

Commissioner Murray asked about real estate taxes on the property.

Finance Director Miller noted that no taxes will be paid on the portion the City occupies (roughly half), but real estate taxes will be paid by the existing tenants. If it is used for commercial purposes, it is still taxable.

Update on Acquisition of 2719 Lexington Avenue

No further discussion was held on this item.

Review Public Financing & Business Subsidy Policy

Finance Director Miller noted this question came up at the last FC meeting. He pointed out the materials in the packet highlighting the ongoing TIF projects in the City. Also provided was an attachment that lays out the City's business subsidy policy. He noted these are meaty documents, showing how it is determined whether a project is worthy of business subsidy. Generally speaking, the 3 big areas for public assistance are job creation, pollution remediation, and affordable housing.

Commissioner McRoberts asked whether notes are issued below market. He also asked about the process for valuing and assuring that those notes are still good.

Finance Director Miller responded the revenue source is captured tax increment. He explained the concept by providing an illustration: there is an underperforming parcel, and it is generating \$100 in property tax revenue. A developer will ask for tax increment. If a building is put up, the taxes will increase to \$200, and that newly created \$100 can go to the developer rather than the City. The City has to weigh the factors, such as the jobs to be created or the affordable housing, and in exchange, the tax increment is given for a specified period of time. The developer bears all the risk. If the developer does not perform by building a quality project, and the additional increment is not created, the developer is shortchanged. He does not recoup the investment he initially planned for. Therefore, the City has nothing to write off. He explained that it is a revenue note that says the City will pay as long as the developer performs.

Commissioner Bachhuber summarized that the City is agreeing to forgo revenue it would have otherwise received, for a period of time.

Finance Director Miller confirmed that is correct. The tax revenue would not have happened without the project performing.

Chair Schroeder noted that the FC has received an email from Mr. Hess with his concern about TIF regulations. He was unhappy TIF can only go to established developers. Perhaps this could be forwarded to another Commission who deals with this policy.

Finance Director Miller stated it should really be directed to the City Council, since it is also the EDA. He noted that Sienna Green is not a non-profit and they are not a very big one. He confirmed he will forward that email.

Commissioner Murray asked about the concept of pooling.

Finance Director Miller explained that pooling allowed the creation of a TIF district, generated a bunch of increment, and that money could then be spent within that district. Alternatively, there was also the opportunity for "pooling," meaning it could be spent anywhere else in the City. The City of Roseville took great advantage of that for a long time, along with many other Cities. Eventually the legislature closed that loophole. The rationale was that other public impacts were created by the development, which meant additional water and sewer or streets might be needed based on the development.

Commissioner Murray noted it would have to be related to the TIF project.

Finance Director Miller stated there had to be some sort of nexus. What sometimes happened is Cities were not as disciplined as the legislature thought. Roseville does not have any of those districts anymore, as the last ones expired a couple years ago.

Commissioner Bachhuber asked how money is generated in a TIF district.

Finance Director Miller used the example of Sienna Green apartments to explain the concept further. For that parcel of property, the apartments have been paying property taxes all along, but now they are paying more because a healthy investment was made. The difference between the new value and before is called the increment. They are still paying taxes to Ramsey County, and Ramsey County gives them to the City in the form of tax increment. Then the City has the ability to reimburse the developer, or in the old days, spend it somewhere else.

Chair Schroeder noted that Ramsey County can also do their own TIF.

Finance Director Miller confirmed that is correct, though usually cities do TIF. Roseville can also request of the County to help contribute to their proportion as well. Most counties are okay with that, though occasionally the County will want to keep the extra money.

Commissioner Hodder noted that, generally speaking, the State of Minnesota gets involved when TIF is provided to a business. The City is required to report that to the State. However, TIF is not as popular now, as more Cities are using tax abatement and loans.

Discussion on Facility Rentals

Finance Director Miller noted this issue of facility rentals came up at the March meeting. He pointed out the rent is determined by many factors: what facility, what portion of space will be rented, and whether the renter is a Roseville resident or non-Roseville resident. He also pointed out some selected financial information with regard to what the City gets on an annual basis for some of the City rentals. In last year, the City took in \$167,000 in facility rental, and the City recorded \$129,000 in direct expenditures, though that does not fully reflect (in true cost accounting) the true cost of maintaining the facilities. He added that the rental rates are adjusted every other year.

Commissioner McRoberts asked about utilization rates and also whether marketing happens.

Finance Director Miller noted he will look into utilization rates. He noted that some marketing happens in the Roseville newsletter and in City brochures.

Commissioner McRoberts noted that local hotels make a lot of money renting rooms but would make more, perhaps because the companies do not know the facilities are available at the City.

Identify Discussion Items for Future Meetings

Chair Schroeder suggested setting up a Fire Station tour for any Commissioner who has not been through it.

Finance Director Miller stated he will set up a tour prior to the May or June meeting. He also will bring a summary of the audit, if available, by the May meeting.

Commissioner Hodder suggested bringing utility rates back before the FC, once the PWET Commission completes its review.

Adjourn

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

Meeting adjourned at 8:28 p.m.