

**Finance Commission  
Meeting Minutes  
May 8, 2018**

**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, Jack Reif, John Murray, Edwin Hodder, Matt Harold and Malcolm McRoberts

**Commissioners Absent:** None.

**Staff Present:** Finance Director Chris Miller

Finance Director Miller provided an update on the two recent Council meetings, as it relates to the focus of the Finance Commission (FC). He noted that TIF money was approved for Colder Products Company, which had asked for assistance for necessary environmental cleanup in advance of building their new global headquarters in Roseville.

**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 McRoberts stated line 59 should be changed to: “efficient level” should be changed to “a service level.”

Commissioner McRoberts also stated that line 422-423 should be clarified to read “that there may be use if companies actually knew they were available.”

Commissioner Reif noted that on line 105, he was the one who asked who conducted the audit, not Commissioner Murray. He also noted that on line 200, “FC come back” should read “FC to come back.”

Commissioner Reif noted that on lines 81, 88, and 90, it should read “Finance Director Miller.”

Commissioner Reif moved, seconded by Commissioner McRoberts, to approve the April 10, 2018 meeting minutes as amended. **The motion carried unanimously.**

**Receive Finance Commission Recommendations Tracking Report**

This item was tabled, as Commissioner Harold had not yet arrived at the meeting.

### **Review 2019-2038 Capital Improvement Plan**

Finance Director Miller noted the first 12 pages of the packet include the memo he prepares each year, which is a draft not yet reviewed by the City Manager. This includes his assessment and recommendations to City Manager Trudgeon, which is fairly consistent with the direction the City has been moving. The Council is slated to review this at their July 9<sup>th</sup> meeting. On the first page, he has separated out programs supported by property taxes and programs supported by fees. He noted that General Facilities, Park Improvement, and Pathway/Parking Lot Maintenance funds all will require some correction in the near future.

Finance Director Miller continued to explain what the General Facilities funds cover. Staff has looked at ways to earmark additional funds. There is roughly a \$3 million funding gap, and what is driving that is the cost of the OVAL. The City intends to seek State monies to offset some or all of these costs.

Commissioner Bachhuber asked when the City will begin requesting those funds.

Finance Director Miller responded the legislative effort will begin in 2019, and that will continue into 2020. He noted that when the \$355,000 begins to be added in 2019, the deficit begins to change dramatically. Then it will be a dip due to the OVAL, but things look good for the long-term. He then displayed the Park Improvement fund graph, showing that if no correction is taken, there will be a \$6 million deficit by 2038. However, the Council approved a spending plan to repurpose some expiring debt levies that expire in 2020 and redirect \$650,000 of that to address this fund. If that happens, the fund will be sustainable.

Commissioner McRoberts asked what is the process to revisit the \$650,000 figure.

Finance Director Miller stated that is ultimately a decision for the Council in 2019 regarding what to do in 2020. He continued that the Pathway/Parking Lot Maintenance fund is not a big asset replacement program. The last couple of years, staff has discovered the City Hall parking lot is going to require up to \$500,000 fix, which is more significant than anticipated a few years ago. Rather than doing a mill and overlay, it will probably get a total rebuild. That means there is a big hole, and because of that hole, staff is advocating a one-time transfer out of the Street Replacement program of about \$350,000.

Commissioner Hodder asked about the asphalt condition.

Finance Director Miller stated the base should have been built to a different standard, so it is the base failing rather than the asphalt. He pointed out some fee-supported funds that require some attention. The water and sewer funds will need near-term adjustments. These funds will require rate increases in 2019, probably about a 5% increase on water and sanitary sewer base rates. With a rate increase of 5%, these funds should be back into financial sustainability. The next

few years of scheduled capital replacements have been deferred until better cash flow is established.

Commissioner McRoberts noted that despite all the conversations about the License Center and using all that funding to purchase the building, the License Center is not funding itself 20 years out.

Finance Director Miller stated these assumptions include all scheduled capital replacements based on the current revenue being set aside for the License Center CIP. Within 20 years, some kind of correction will have to be made. The CIP planned expenditures could self-correct. There are so many factors out of the City's control, in terms of car-buying public and passport-seeking public continuing to choose to come to Roseville's License Center.

Commissioner McRoberts noted if a capital outlay is required, it should have been built into the plan for acquiring the building.

Finance Director Miller commented there is money set aside in the CIP for a significant renovation, of approximately \$400,000. If those reserves are not built up in any way, there will be additional revenue. The question is how much is left for the License Center purposes and how much is taken for other City services. The License Center is separate from the strip mall in terms of budget. He also noted that the rent money will be repurposed to help pay for the operating costs of the building.

Commissioner Harold arrived at approximately 6:55 p.m.

Commissioner Harold asked about the Community Development fund being 5,000% overfunded.

Finance Director Miller noted those funds are restricted. When the building permits are heavy, revenue is collected and it is used to provide for building inspections, plan review, etc. The monies are restricted just for that. That is State law.

Commissioner McRoberts asked whether that could be used to fund the Fire Department's safety checks.

Finance Director Miller responded that is not possible. He then brought up the Golf Course fund. Unless its financial performance improves, all of the money has been going for operations for the last ten years and that has not been able to provide for the long-term capital needs.

Commissioner McRoberts asked about the lack of revenue in the Golf Course CIP.

Finance Director Miller pointed out all the revenue is going to operations. Almost all the revenue comes from the number of golfers coming through. For right now, this is the projection.

Commissioner McRoberts noted that the number of people playing golf decreases each year.

Chair Schroeder recalled that the FC had previously discussed the golf building before it was built, and recommendations were made.

Finance Director Miller noted that page 9 shows recommended funding and impacts. Six funds are listed. He recalled the Council adopted a resolution to identify a number of different means to address shortfalls in the CIP. There are three years left in that original plan. The Council had suggested that the expiring debt levy in 2019 be repurposed to the General Facilities fund. Back then the Council also recommended a plan to establish a new levy of \$200,000 for the pavement management program. The monies set aside to pay for the expansion of City Hall and the refurbishment of the maintenance building in 2003/2004. That can be repurposed in 2020. The Council had originally suggested \$650,000, but everyone knew the factors would change. Given that, the staff has drafted 6 recommendations:

#1 In 2019, re-purpose the expiring \$355,000 debt levy from the Arena bonds towards the Facilities Fund consistent with the original Plan adopted by the Council in 2012.

#2 For 2019, forgo the \$200,000 new tax levy originally earmarked for the Pavement Management Plan in favor of waiting until the 2020 opportunity to re-purpose the expiring \$765,000 City Hall/PW Building bonds to the Park Improvement & Pavement Management Plans. Based on current projections the expiring debt levy will be sufficient to bring both of these plans into financial sustainability.

#3 For 2019, perform a one-time \$350,000 transfer of monies from the Pavement Management Plan fund to the Pathways & Parking Lots Fund to address the higher than-expected City Hall parking lot replacement. Future appropriations from the repurposed City Hall/PW Building debt levy to the Pavement Management Plan fund will be sufficient to bring that fund into financial sustainability despite the \$350,000 transfer out in 2019.

#4 For 2019, continue to adjust the base rates for the water, sanitary sewer, and storm sewer as needed to accommodate planned capital replacements. A more specific recommendation will be forthcoming after the annual utility rate analysis is complete, however it appears that a 5% increase in the base water & sewer rates will be needed to address near-term capital replacements.

#5 Tentative for 2020, re-purpose the expiring \$765,000 City Hall/PW Building bonds to the Park Improvement & Pavement Management Plans. Based on current projections the expiring debt levy will be sufficient to bring both of these plans into financial sustainability.

#6 For the nearly \$3 million in OVAL improvements scheduled for 2021, pursue special legislation for inclusion in a future State Bonding Bill.

Commissioner Bachhuber asked if any of the proposals address the Golf Course deficit.

Finance Director Miller responded these recommendations do not address the Golf Course deficit.

Commissioner Bachhuber asked about the pavement program, specifically whether it would be maintained as an endowment, as per this Commission's recommendation.

Finance Director Miller indicated this is a different recommendation

Commissioner Bachhuber stated he has serious concerns and would like to hear staff's rationale for recommending the FC's recommendation,

Finance Director Miller responded that with the operating budget pressures and the 20-year needs of the City, staff is sensitive to the balance that has to be struck. The capital has to go hand in hand with operations. If the delivery of programs and services require capital assets to make it happen, the CIP has to be there. There are concerns on the operational side that are not as financially sustainable as staff would like it to be. For the next 4-5 years, there is deficit spending in a number of operational funds. If all of the eggs in one basket of funding the CIP at all costs, it will be to the detriment of the daily operations. In the near term, staff has done some amazing things with the CIP and with these recommendations, so the City is in good shape for the next 20 years. The City is not in good shape, however, next year, 2019/2020, on the operational side.

Commissioner Bachhuber suggested that the FC's previous recommendations did not put much pressure on the next 5 years. It included a \$50,000/year increase in levy starting in 2020. It seems short-sighted to look at 20 years and leave the citizens on the hook for an increase in levy of \$3 million per year just outside the purview of this recommendation. The expenditure will be over \$3 million per year for the pavement replacement fund. Once the endowment is gone, that will have to be fully paid out of tax expenditures. The expenditures are less than half of what was anticipated last year.

Finance Director Miller stated the projects have changed significantly. He noted that one thing that is missing is the \$1 million that was removed out of the pavement management program, because technically there were restricted monies going in to it. He pointed out page 6 of the packet. This will explain why the funding has changed so much. The Municipal State Aid dollars total about \$1 million per year. Technically that money can only be used for MSA-designated streets. To be more accurate in the CIP, that has been removed, in order to get down to the analysis of what is available for City streets only. That has changed. About \$20 million coming right off the pavement management program.

Commissioner Bachhuber stated the FC was clear about the desire to maintain an endowment.

Finance Director Miller concurred that the recommendation was to maintain the endowment. That would be great if the Council could be convinced to address all of the City's operational and CIP needs and still maintain the endowment. His sense is the current Council would not do that.

Commissioner Bachhuber stated it seems like staff is recommending what they think Council will approve rather than what is best for the City.

Finance Director Miller stated that for the next 20 years, he is not sure he would place an emphasis on creating a \$8 million to \$12 million endowment when there are significant operational needs. He has made suggestions for the funding strategies for 2019, and that is as far as the staff has looked. He has resisted at looking at 2028 funding strategies. Things change so significantly from year to year with the CIP, so he does not look that far. It makes most sense to look at the next five years.

Commissioner McRoberts asked what was not dealt with three years ago that caused some of these five-year issues to arise.

Finance Director Miller responded the water fund is the biggest issue. The City has expedited a significant amount of capital replacements. That was based on a determination that the engineering department did with some other engineers. In their mind, the City was running a risk of not expediting those projects.

Commissioner McRoberts noted there were three funds okay for one year.

Commissioner Hodder expressed concern that the City will have to move to an assessment system once the pavement fund is drawn down.

Finance Director Miller indicated that in 2019, the staff is not too worried about its cash position. Unlike a lot of other things, there is more time to fix the pavement management fund long-term. Operations funds do not. Staff is sensitive to what the community is willing to pay in 2019. The goal is to avoid hitting the resident with more increases in the next couple years.

Chair Schroeder noted it would be helpful to do a comparative between what was originally recommended by the FC as compared to what staff is recommending. That would be helpful for the new Commission members.

Finance Director Miller pointed out Attachment A, which explains the FC's recommendation to keep the pavement management fund as an endowment. He explained in detail the staff's recommendation for drawing down the fund. He then recalled in detail how the pavement management fund was established in the mid-1980s and was eventually built to \$12 million. Interest rates have fallen significantly over the last several years, so that it is not been possible to fund street improvements on generated interest, which was the original intention of the fund.

The Commissioners discussed whether to maintain the pavement management fund as an endowment or to draw it down, and whether the budget projections are accurate.

Commissioner Hodder stated the residents of St. Paul are looking at a 23% increase in property tax because now residents are assessed for everything, per linear foot of property they own.

Commissioner Murray asked about the engineering figures.

Finance Director Miller responded the engineering department uses a software program. It uses current dollars and does not factor in inflation.

Chair Schroeder asked how the fund balance of \$10.6 million has been reduced to \$8 million.

The Commission speculated about a variety of possibilities for that reduction.

Finance Director Miller responded he will get the Commission a better reconciliation to connect those dots.

Chair Schroeder noted that the FC had wanted to add small amounts each year to the pavement fund.

Finance Director Miller noted the \$365,000 would be infused in 2020. Even with that addition each year, a course correction still has to happen. This is a trend that must be addressed. What staff is saying is, it should not be addressed in 2019.

Commissioner Bachhuber noted recommendations are being made for 2020.

Finance Director Miller indicated staff wants to let the Council know there is a need to repurpose the \$765,000 that is coming available in 2020. It does not require the Council to do anything. At \$365,000, starting in 2020, there will be time to figure out how to do the rest of the course correction.

Commissioner Bachhuber asked for a discussion about the operational spikes in the general fund.

Finance Director Miller indicated the General Fund is the most important fund because it provides the core functions. There is a deficit of \$681,000 programmed into 2018. That is not an easy feat to get out from under. That is fine when there are a lot of cash reserves, but those general fund cash reserves are starting to run out as well. There has to be a near-term course correction for the general fund. That is a very big percentage increase just on its own. When there is a \$20 million, that is a 3.25% increase in levy just to get back on even footing.

Commissioner Bachhuber summarized that the deficit spending has gone on for a couple of years and has to stop.

Finance Director Miller stated he is not comfortable advocating for levy increases in several smaller areas of the CIP, because the general fund is the most important fund and there is a \$681,000 gap right now. If this deficit spending happens in 2019, the City will drop below cash reserve target levels.

The Commissioners discussed the projected 2019 revenue, trying to discern if there is a mistake on the spreadsheet. Staff will bring the spreadsheet back, with corrected numbers.

Finance Director Miller then pointed out the Pathways/Parking Lot recommendations, pointing out the \$500,000 for the new City Hall parking lot.

Commissioner McRoberts asked about the life span of a parking lot.

Finance Director Miller indicated he is unsure but can find that out.

Chair Schroeder noted a \$500,000 expenditure is planned in 2023 for Lexington; she asked staff for clarification on that.

Commissioner McRoberts asked about the funding source for the Communications Equipment fund.

Finance Director Miller responded that is funded by cable franchise fees. Subscribers pay it to Comcast, and Comcast pays it to the City. The City uses those fees for operational costs as well. The communications program is funded out of those fees. The money is split between capital and operational needs.

#### **Update on CIP Categorization/Definitions Process**

Commissioner McRoberts and Harold met with staff to discuss the current CIP categorization, and made the following recommendations to increase transparency:

**Category 1** This would include CIP items that are generally routine and can be incorporated into various replacement policies. It would include day-to-day items such as vehicles & equipment that have a fairly consistent useful life. Items in this category, as reflected in the various replacement policies, would generally be reviewed annually by the City Council, but perhaps less frequently if no significant changes are made.

**Category 2** This would include CIP items that are incorporated into a broader strategic plan or replacement policy. It would include infrastructure identified in the City's Pavement Management Program (street replacement), Park Improvement Programs or similar long-term planning initiative. Items in this category would be reviewed annually by the City Council unless they chose to delegate it to the advisory commissions.

**Category 3** This would include CIP items that would be considered non-routine or occur on a highly infrequent basis and have a significant budgetary impact. This could include items such as the OVAL refrigeration system replacement or new facilities.

Commissioner McRoberts suggested this language supplement the current CIP language that is not being adhered to anyway.

Finance Director Miller indicated the Council was not thrilled with the idea of prioritization. He believes the categories may work, but it matters whether it resonates with the Council or not. The FC had some underlying concerns that the Council was not spending enough time on the CIP.

Commissioner Harold noted that over the past year, a number of large-ticket items not included in the CIP have been passed, and that is also concerning to the FC. He believes the goal is to have those non-CIP items pass through this same categorization discussion as well.

Commissioner McRoberts suggested coming up with a format for category #3 and coming up with examples for categories 1 and 2. This additional work would then be brought back to the FC for further review.

Commissioner Reif suggested expanding the wording of the title of categories, when using the categories in a document, so everyone remembers what category 1, 2, and 3 refer to.

Chair Schroeder expressed agreement for moving on to the next step in the process.

Finance Chair Miller asked about the mechanics of triggering discussions of category 3.

Commissioner Harold stated a standardized format is needed for these long-term financial items.

Finance Chair Miller commented that the process would be up to the Council and the staff to follow, but sometimes things do come up quickly.

Commissioner Bachhuber added that nothing should be done so quickly that a memo cannot be issued about it.

Commissioner McRoberts concurred that what this policy is looking for is a level of due diligence.

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

Chair Schroeder stated the CIP categories will be on the June agenda, as well as the audit, and the 2019-2038 CIP.

### **Adjourn**

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

Meeting adjourned at 8:31 p.m.